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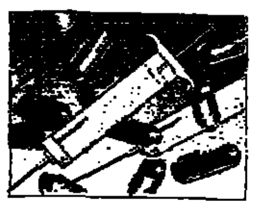

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Operators race to surf 'data wave'
Separate section

WORLD NEWS

Russian statistics officials accused of helping companies hide tax liability

The two top officials of Russia's statistics service have been charged with helping big companies evade taxes. Investigators arrested Yuri Yurkov, head of the state statistics committee, his deputy and several alleged accomplices. They are accused of manipulating data to hide companies' real output and reduce their tax liability, and with selling classified information. Boris Fyodorov, Russia's new tax enforcement chief, said his first targets would be rich Russians and foreigners. **Page 14; Crisis? What crisis?, Page 2; Capital markets, Page 24**

Nigeria sticks to timetable
Nigeria's new ruler, Gen Abdusalam Abubakar, will keep to his predecessor's plan to restore civilian rule on October 1, a spokesman for the military government said. The main opposition group rejected Gen Abubakar's appointment and called for anti-military protests. **Oil companies keep watch, Page 4; Africa's 500-pound weakling, Page 13; Emerging market focus, Page 36**

Yeltsin warns against intervention
Russian president Boris Yeltsin warned that military intervention by outside powers could deepen the crisis in Serbia's Kosovo province. But western officials said Nato would go ahead with preparations for possible action. **Page 3**

Heavy fighting on Ethiopia's border
Intense fighting erupted along the Ethiopian-Eritrean frontier as the African neighbours turned their armies against each other in the latest stage of their undeclared war. **Page 4; Observer, Page 13**

Trade unions still repressed
Trade union activities are increasingly repressed, the International Confederation of Free Trade Unions says. It claims Colombia has the worst record, accounting for 156 of those murdered last year for union activities. **Page 4**

Supporters pledge backing
Supporters of Louise Woodward, the British au pair convicted in the US of killing a baby in her care, pledged their continued backing after claims by the au pair's former defence lawyer, Elaine Whitfield Sharp, that her mother defrauded a fund set up for her defence.

Rain lashes Hong Kong
At least one person was missing as Hong Kong cleared up after storms that put schools, the stock exchange, banks and some public services out of action.

Habibie speaks on East Timor
Indonesia's new president, B.J. Habibie, said he was willing to consider a special status for East Timor but insisted that the territory would remain part of the country.

Cyclone sweeps west India
At least 75 people were killed when a cyclone hit coastal areas of Gujarat state.

Belarus may relent over envoys
Belarus hinted it might cancel an order to foreign diplomats to leave elite residences in the capital, Minsk. **Page 2**

Vatican 'foreign minister' dies
Former Vatican secretary of state Cardinal Agostino Casaroli died in Rome aged 83. Architect of the Vatican's rapprochement with communist regimes, his most rewarding moment came in 1989 when Soviet president Mikhail Gorbachev and Pope John Paul met.

BUSINESS NEWS

LTCB shares fall 22% on mounting fears over strength of SBC alliance

Shares in Long-Term Credit Bank of Japan plunged 22 per cent on mounting unease over the strength of its alliance with Swiss Bank Corporation and concern that creditors were becoming reluctant to lend to weaker Japanese banks. **Page 14; and Lex; Market shivers, Page 20**

Network Associates of the US has agreed the $642m purchase of the UK's Dr Solomon's Group, in a deal that will create one of the largest network security software groups in the world. **Page 15; BT internet plan, Page 10**

LIFFE – London International Financial Futures and Options Exchange – has voted to overhaul the exchange and introduce electronic trading. **Page 15**

European Bank for Reconstruction and Development proved its commitment to Czech bank privatisation by buying an 11.8 per cent stake in Ceska Sporitelna, the dominant state-owned retail bank, for Kč2.5bn ($75m). **Page 3**

Volkswagen has confirmed it is in talks to buy Italian sports car maker Lamborghini through its Audi subsidiary. **Page 15; Observer, Page 13**

Volvo, Swedish automotive group, is replacing Helge Alten – head of its US car operations – in a bid to bolster marketing in North America. **Page 16**

Endesa shares fell nearly 5 per cent on the first day of trading after the Spanish power group's Pta1,150bn ($7.6bn) privatisation. **Page 17**

Iridium, the US satellite telecoms company planning the first hand-held global cellular phone service, has signed agreements with more than 200 telecoms operators. **Page 5; Lex, Page 14**

Poland's state-controlled steel industry will be privatised by 2001, the government said a report to the EU. **Page 5**

The Australian dollar's slump to 12-year lows fuelled speculation that a politically risky rate rise may force the government to delay elections. **Page 6**

Tele Danmark, Danish national telephone company controlled by Ameritech, has named former finance minister Henning Dyremose as chief executive. **Page 17; Observer, Page 13**

Heineken, Dutch brewer, has expanded its share of Poland's beer market to more than a third with a takeover of Australian-owned Elbrewery. **Page 17**

Procter & Gamble, US consumer products group, is to invest £100m ($164m) in a new tissues and towels factory in the northern English city of Manchester. **Page 12**

Leading international banks are to test new currency indices that could transform the $1,200bn a day forex market. **Page 15**

Thailand's cabinet approved a scaled-down plan to sell 20 per cent of its stake in state airline Thai Airways International on the Bangkok stock market. **Page 6**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 35

Brussels set to support end to ban on British beef exports

Proposals follow from EU approval of separate scheme for Northern Ireland

By Michael Smith in Brussels

The European Commission is today expected to back an end to a worldwide ban on British beef exports, lifting hopes that overseas sales can resume as early as the autumn.

The 20 members of the college of commissioners will emphasise the high priority they place on ending the ban by forwarding proposals for sales of cattle born after August 1996 to a specially-convened meeting of the EU's influential standing veterinary committee on Friday.

The moves follow EU approval for a separate scheme allowing Northern Ireland to resume beef exports from the beginning of this month.

Under the proposals likely to be backed today, most of Britain's 6m-strong beef herd would be eligible for export. Sales of meat would not be allowed from cattle over 30 months old.

The ban was imposed in March 1996 following evidence suggesting a link between BSE, mad cow disease, and CJD, a similarly fatal disease affecting humans. Before the ban, Britain was exporting beef worth over £5bn a year.

The UK has always argued that the ban was unjustified. Since its imposition, the government has adopted a series of measures to eradicate BSE, including the slaughter of 3m cattle and a prohibition on the sale of "specified" cattle parts, including brains.

Jack Cunningham, agriculture minister, has told the UK's European partners that British beef is among the safest in the world.

The support of the commissioners, who act as the EU's executive, is vital to the UK's campaign to overturn the ban.

However, EU agriculture officials who drew up the scheme to end the ban and the British government must now persuade other countries that UK beef is safe.

Theoretically it is possible that Friday's standing veterinary committee, made up of member state veterinary experts, could approve the scheme by a qualified majority, removing the need for the issue to go to farm ministers.

However, this is thought to be extremely unlikely. Britain's BSE problems have caused widespread concern throughout Europe. Germany is unlikely to support lifting the ban until after elections there in late September.

EU agriculture officials hope to have completed much of the technical work for the scheme by then, enabling an end to the ban to be implemented shortly afterwards.

Northern Ireland won early approval for exports because of a computerised tracing system that recorded the history of cattle herds over the past eight years.

For the mainland UK scheme, August 1996 has been chosen because it is the date when a ban on feeding meat and bone meal to animals, thought to be a cause of BSE, became fully effective.

Even if the ban is lifted later this year, the UK will have to fight hard to regain export markets, especially with the pound so high. Northern Ireland has yet to export its first beef and overseas sales are expected to start slowly.

Commodities, Page 26

Scots steel themselves to face soccer favourites Brazil

Rarely has a World Cup finals opened with as strong a favourite as Brazil. They are defending champions, ranked top by Fifa and blessed with the world player of the year in striker Ronaldo. It is difficult to see beyond a Brazilian win – a view accepted by Scotland coach Craig Brown who, minutes after the draw, conceded the group would be about the scrabble for second place.
Daily coverage of the World Cup begins today, Pages 8-9
Picture: PA

Credit Suisse First Boston to buy Banco Garantia

By William Lewis in New York and Geoff Dyer in São Paulo

Credit Suisse First Boston, the Swiss-American investment bank, will this week announce its latest acquisition – the takeover of Banco Garantia, Brazil's leading investment bank.

According to people close to the transaction, an announcement could come today. The value of the deal is said to exceed $1bn, including funds set aside to retain important Garantia staff.

The acquisition will help CSFB to become Brazil's largest investment bank and reinforce its position as one of the world's leading investment banks. Last year CSFB acquired the European equities business of BZW, the investment banking arm of Barclays, the UK bank. Allen Wheat, CSFB's chairman and chief executive, recently said that he was "looking at all the options" regarding further acquisitions.

CSFB, owned by Credit Suisse, the Swiss bank, still requires regulatory approval from the Brazilian central bank, but that is expected to be granted this month.

CSFB's payment to Garantia is likely to be in cash and shares, and represents just under two times the book value of the Brazilian investment bank.

To clinch the deal with Garantia, CSFB saw off competition from two leading US investment banks – Goldman Sachs and Morgan Stanley Dean Witter.

Garantia has 19 partners and was modelled by its founders on Goldman Sachs. According to a recent report by Fitch IBCA, the ratings agency, 60 per cent of the bank's equity is in the hands of four of the partners, some of whom are expected to retire following completion of the deal.

The firm has strong positions in equity and debt trading, foreign exchange, and mergers and acquisitions, which gives it close contacts with the largest Brazilian corporates. Until last year, Garantia was also considered to have the best proprietary trading operation in Brazil. However, it suffered heavy losses on its own positions during the Asian crisis, which forced it to launch a R$50m ($43m) capital increase and ultimately prompted the search for a buyer.

Garantia is the first of the large Brazilian investment banks to lose its independence. In the past year three small firms have been acquired by SBC Warburg Dillon Read, Flemings of the UK and NationsBank of the US.

China urges Japan to stabilise yen as Asian crisis bites

By James Kynge in Beijing and John Ridding in Hong Kong

China appealed to Japan yesterday to stabilise the yen as Beijing gave its most gloomy assessment yet of the impact of Asia's financial crisis on Chinese exports and inward investment.

Dai Xianglong, governor of the People's Bank of China, the central bank, said the influence of east Asia's crisis on China was "getting bigger and bigger".

"The economic adjustments in east Asia and the sluggish Japanese economy, in particular the depreciation of the yen, are having a very unfavourable effect on China's exports and [the country's] ability to attract foreign investment," said Mr Dai. "We hope the Japanese government will take effective measures to stabilise the yen."

He said the renminbi, China's currency, would be kept stable but did not repeat the previous official promise of no devaluation. Some analysts discerned in this subtle distinction a hint Beijing may be preparing to guide the renminbi gradually lower.

Chinese exports to Japan made up 17 per cent of the total last year.

Shares in mainland-controlled companies plunged on the Hong Kong stock market, underlining fears that the fall in the Japanese yen could force China to devalue.

The index for red-chips, Hong Kong-based subsidiaries of mainland enterprises, fell 8.6 per cent. H-shares, the Hong Kong-listings of mainland state-controlled enterprises fell 6.8 per cent. The benchmark Hang Seng index also fell sharply, losing 2.2 per cent amid concerns that the weak yen would add to pressures on the territory's battered economy.

"Sentiment has been turning against China plays, but the pressures came to a head today," said Steven Thompson, senior analyst at Nikko Research Centre in Hong Kong. "Investors were spooked by concerns over the renminbi."

During the day's trading in Tokyo, the Japanese currency touched Y141.11 against the dollar, its weakest level for seven years. However, it later strengthened to Y140.2 in New York.

A senior Chinese official, who declined to be identified, said the outlook for the yen and the Japanese economy figured in a flurry of policy meetings in Beijing. Scenarios on how China would be affected by the yen at 160, 170 and even 200 to the US dollar were being drawn up.

A multilateral effort led by the US to stabilise the yen may be needed at some time in the future, said the official.

"So far, devaluation of the renminbi is not being considered," the official said. "The biggest worry is that the Hong Kong dollar peg may be threatened if the yen falls even more sharply."

But the Hong Kong government said it is firmly committed to the peg, in spite of the prospect of deep recession and a protracted rise in interest rates.

Currencies, Page 25

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9053.90	(-15.70)
NASDAQ Composite	1798.58	(+10.82)
Europe and Far East		
CAC40	4201.86	(-2.72)
DAX	5760.03	(-19.06)
FTSE 100	6019.8	(-18.0)
Nikkei	15,530 17	(+235.46)
US Lunchtime RATES		
Federal Funds	5.37%	
3-mth Treas Bills: Yld	5.14%	
Long Bond	104$\frac{3}{8}$	
Yield	5.797%	
OTHER RATES		
UK: 3-mo Interbank	7¾%	(7¾%)
UK: 10 yr Gilt	110.6484	(110.628)
France: 10 yr OAT	104 40	(104.37)
Germany: 10 yr Bund	108.03	(107.99)
Japan: 10 yr JGB	112.0	(111.85)
NORTH SEA OIL (Argus)		
Brent Dated	$12.685	(13.405)

GOLD		
New York: Comex		
(Jun)	$76.25	(296.0)
London:	$293.25	(293.55)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6355	
DM	1.7805	
FFr	5.964	
SFr	1.4758	
Y	140.45	
London:		
£	1.6357	(1.6327)
DM	1.7796	(1.7775)
FFr	5.9680	(5.9605)
SFr	1.4769	(1.4772)
Y	140.315	(140.41)
Tokyo Close		Y 140.33
Sterling		
DM	2.9127	(2.9021)

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WORLD NEWS

EUROPE

Air France pilots stay out for the Cup

By Robert Graham and David Owen in Paris

Defiant Air France pilots yesterday refused to call off their nine-day-old strike, ensuring that the bulk of the airline's fleet will remain grounded for the initial stages of the soccer World Cup, which begins today.

"We are more determined than ever to stick by our position," the SNPL, the main pilots' union, said yesterday after a meeting to sound the mood of members. The union had made no fresh attempt to restart negotiations.

Jean-Cyril Spinetta, the head of the state-controlled company, is preparing a special board meeting to alter its statutes to permit the direct imposition of new salary scales that would create annual savings of FFr500m ($84m). The meeting is likely to be delayed until Saturday to allow the opportunity for talks.

"The management knows that if it changes the statutes to impose a new salary grid this will cause an irreparable break with us," SNPL warned.

Both Air France management and the Socialist-led government are taking a firm stand. They are banking upon lack of public support for the pilots and so far the government has discounted of a moratorium on the restructuring plan to get the 3,200 pilots back to work during France '98.

Although the stoppage will have little impact on increased passenger traffic for the World Cup, it is a serious national embarrassment. Air France is the official carrier for the tournament and still has two-thirds of its fleet grounded, incurring direct losses of more than FFr100m a day.

Airline officials say it will take a good 48 hours to restore full operations once any deal is reached. However, 160 special flights carrying the 32 teams during the competition will go ahead, and striking pilots have offered special flights for supporters with tickets – a suggestion Air France has ruled out as impractical.

Most travellers have been able to reach France in time for the opening game today. During the competition they can rely on France's efficient fast train (TGV) network.

SNCF, the French railway company, said it expected a total of 1m passengers over the next five weeks of France '98, with 130 TGVs specially hired – mainly by Japanese and Brazilian groups. Although one of the train drivers' unions is due to strike today and at other times during the Cup, SNCF expects the action will affect only some regional trains and will have no impact on football supporters.

Paris was invaded last night by Brazilian and Scottish supporters before the match between the two countries at the Stade de France today. The city staged a spectacular parade to the Place de la Concorde with a sound and light extravaganza billed "As grand as the gods of the football field".

World Cup, Page 8
See Editorial Comment

'Turnaround' in Germany's unemployment

By Peter Norman in Bonn

Unemployment in Germany fell sharply last month, bringing the seasonally unadjusted total below the previous year's level for the first time since August 1995.

On a seasonally adjusted basis, unemployment fell in May by 60,000 to 4.32m. The decline, which was divided equally between west and east Germany, trimmed the national unemployment rate to 11.2 per cent of the working population from 11.3 per cent in April.

The widely-leaked unadjusted "headline" figure fell by 223,400 to 4.2m last month, the federal labour office reported yesterday. It was thus well down on January's record 4.82m and 58,300 below the May 1997 level.

The unadjusted jobless rate fell to 10.9 per cent last month from 11.4 per cent in April and 11.1 per cent in May last year.

Bernhard Jagoda, the labour office president, said the May data marked a "turnaround" in western Germany's labour market, while there were some "signs of light" in the east. But he said the improvements in the former communist east mainly reflected government make-work schemes and warned that yesterday's news gave no grounds for relaxation.

Helmut Kohl, the chancellor, said the May jobless fall was "very pleasing". Günter Rexrodt, the economics minister, said the figures showed increased investment was now creating jobs.

He predicted a drop in average unemployment this year and that the year-end jobless total would be about 300,000 below the 4.52m of December last year.

By contrast, Otmar Schreiner, for the opposition Social Democrats, said yesterday's data gave "no reason for premature rejoicing" and pointed out that total employment, at 33.55m in March, was 208,000 down on March last year. For the fifth successive month, unemployed staged demonstrations in large industrial cities to coincide with the news.

Yesterday's seasonally adjusted data put unemployment in eastern Germany at 18.7 per cent, twice west Germany's 9.4 per cent rate.

Despite a fall in eastern Germany's jobless rate from 19.1 per cent in April, the Berlin-based DIW economic research institute warned there was little sign that an upturn in the economy would bring a marked improvement in the region.

Separately, the Bonn economics ministry announced a 0.6 per cent seasonally adjusted drop in industrial output in April from March, but on the basis of March figures that had been revised to show a 0.8 per cent increase instead of the 1 per cent fall reported a month ago.

Taking data for March and April combined, there was a 0.5 per cent rise in production compared with January and February, and a 5.8 per cent rise compared with March and April last year.

ECB will go for monetary targets

By Wolfgang Münchau in Frankfurt

Wim Duisenberg, president of the European Central Bank, gave the clearest hint yet yesterday that he would follow in the Bundesbank's footsteps and advocate a policy of monetary targeting to achieve stability in the euro-zone.

Speaking at the first press conference since the ECB was launched at the start of this month, Mr Duisenberg confirmed he had "no plans to make a public inflation forecast" for the euro-zone or for individual members.

His comments suggest that UK-style inflation targeting – under which the central bank sets interest rates to meet a specific inflation rate – is unlikely to emerge as the chosen monetary policy instrument.

It was previously assumed that the ECB might initially opt for a mix of the two strategies, because of criticisms that monetary data may not be sufficiently reliable during the transition period of economic and monetary union. Hans Tietmeyer, president of the Bundesbank, said this week that he hoped monetary targeting would be firmly entrenched as the main plank of the ECB's policy.

Mr Duisenberg also confirmed yesterday that the ECB would hold between 10 per cent and 15 per cent of its foreign currency reserves in the form of gold.

He made his comments after the first meeting of the ECB's governing council, which consists of the central bank's six-member directorate and the 11 central bank governors of participating countries.

The council will not set interest rates until the formal start of Emu next year. But at its inaugural session yesterday it also sanctioned the appointment of 55 key staff, including 49 from the European Monetary Institute, its forerunner.

One of the few outside appointments is that of Manfred Körber, the Bundesbank's external relations director, to the same position at the ECB. This reflects the Bundesbank's influence in the ECB and signals an attempt to demonstrate continuity between the two institutions.

The council, which is to meet on the first Tuesday of each month, also set the capital shares in the ECB of each of the 11 national central banks. The Bundesbank will be the largest shareholder, accounting for 24.41 per cent, followed by the Bank of France with 16.87 per cent and the Bank of Italy with 14.96 per cent.

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Crisis? What crisis? asks the Russian in the street

There is a significant gulf between the real economy and the problems of the financial markets, says **John Thornhill**

Alexandra Mayorova, a weather-beaten *babushka* from the town of Kaluga, south-west of Moscow, cannot understand all the recent fuss about a financial crisis in Russia. For her, nothing has changed for years.

"It is just noise above our heads," she says dismissively, standing on a street corner selling bedraggled bunches of sorrel. "They can say there is a crisis or there is not a crisis. It is all the same to me."

Every week, Mrs Mayorova gathers the vegetables in her garden and travels to Moscow to try to earn enough money to support her bed-ridden 71-year-old husband and her jobless son. She says the pension she receives after working 39 years on the railways is not enough to live on. Besides, it is rarely paid on time.

"It is impossible to live this way any more. I was only six years old when the war started but even then I remember that life was better then than it is now."

For Mrs Mayorova – and the one in five Russians who earn less than the officially-defined minimum subsistence wage – it is difficult to imagine that the financial position could grow any worse. Mrs Mayorova has no bank savings. She has no US dollars. The markets' gyrations over the past few weeks have had no impact on her daily life.

This gulf between Russia's financial markets and the real economy is often counted as one of the chief weaknesses of the capitalist transition. The financial markets are still too under-developed to fulfil one of their most basic functions: to channel the nation's savings into investments to promote economic growth and raise living standards.

Ironically, though, it is the markets' very immaturity that has helped the government survive the latest crisis. The central bank was able to triple interest rates temporarily to 150 per cent to defend the rouble (and then lower them again to 60 per cent last week) knowing it would have little effect on the underlying economy – apart from raising its own cost of borrowing.

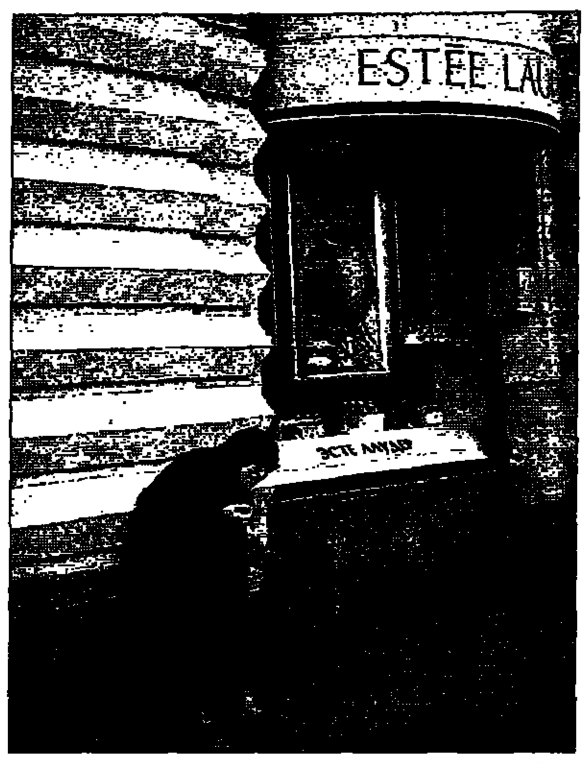
Bank lending to the real sector amounts to less than 10 per cent of gross domestic product compared with a ratio of 100 per cent in many western countries. There is still no mortgage market in Russia worthy of the name.

Moreover, this year's 47 per cent slump in share prices has had little impact on the general population. The stock market is dominated by foreign investors and big domestic banks and does not produce any widespread "wealth (or poverty) effect" as is so conspicuously the case in the US.

"In this crisis situation many of the weaknesses of the Russian economy are not so bad," says Pavel Teplukhin, president of Troika Dialog Asset Management, a Moscow-based fund management group.

"Economists know that there is a very dangerous financial crisis building up in the country but most Russians have not really noticed. Russians are much more confident about the rouble than international investors. All this screaming about a devaluation is coming from abroad."

Mr Teplukhin's assertion certainly seems to be borne out by the shoppers at Ramstore, a giant hypermarket in the suburbs, where middle-class Muscovites merrily flock past its 30 tills seemingly oblivious to any threat to their prosperity.



The real economy: a woman begs on a Moscow street   Panos

A teller at the store's currency exchange bureau reports there has been no surge in customers wanting to buy dollars. A manager says sales have held up particularly well in recent days as shoppers have stocked up on charcoal, meats, and vegetables as they head out to their dachas.

"This crisis has not had any influence on us so far," the store manager says. "[President Boris] Yeltsin is trying to stop the crisis by squeezing extra taxes from Gazprom and the oil companies to pay the coal miners. But that does not influence the salaries of Muscovites so the situation is still okay."

Boris Nemtsov, deputy prime minister, says the government has so far succeeded in defending the rouble and preventing panic. This crisis "is like a typhoon in the Far East. It is terrifying to watch it but for the citizen it is simply some news, albeit unpleasant, which has little real effect".

But Mr Nemtsov says the current high interest regime will have longer-term social consequences by delaying economic growth and stalling job creation.

Any devaluation of the rouble would also lead to a surge in the prices of imported consumer goods on which Russia's big cities are now so heavily reliant.

But, for the moment, it is the very lack of a sense of crisis among the better off that could hamper the government's fight to resolve its financial problems.

In particular, Moscow's 9m residents, the most conspicuous beneficiaries of the country's market reforms, seem little inclined to shoulder more of the financial burden themselves by paying more taxes – especially as their populist mayor, Yuri Luzhkov, is readying himself for a presidential bid in 2000.

Valentin Glinsky, a thoughtful pensioner who is watching his grandson build Lego castles outside the Ramstore hypermarket, says few Muscovites accept the urgency of making sacrifices. "Muscovites are still not ready to accept that we will have to live a little less well if the rest of Russia is to live any better," he says, regretfully.

Euro-zone will see falling car prices

Living with the euro

The new currency will open up price transparency in EU markets, report **John Griffiths** and **Haig Simonian**

For Europe's hard-pressed carmakers, the arrival of the euro ranks with the expiry in 1999 of the "gentleman's agreement" limiting Japanese imports as a headache they can do without.

The euro will open the door to price transparency in the 11 countries adopting the common currency. It will also raise questions about reorganising dealer networks, and it could affect how and where manufacturers make cars and buy components.

A common currency "is likely to be the next catalyst for price convergence", said Garel Rhys, professor of motor industry economics at Cardiff Business School. Convergence has been under way for some time. Independently of exchange rates, price variations narrowed by nearly 40 per cent since 1993, he argued.

The problem for carmakers is that, with overcapacity of at least 20 per cent, prices are likely to drift down in the euro-zone. In some smaller markets where prices are exceptionally low, such as Belgium and Luxembourg, prices may edge up but the weighted average, including bigger markets, is set to sink.

Customers will be able to compare prices and, if they wish, buy wherever is cheapest. "Nothing can be hidden," said Charles Hunter-Pearse, vice-president of network development at Volvo Cars Europe.

But there will be no general move to euro pricing from January 1, 1999. Manufacturers have done well out of regional variations and have no wish to accelerate transparency. In the UK, Ford has used its market dominance to price high. Others have preferred to use its prices as benchmarks to allow higher margins.

The second factor constraining uniform pricing is that, while the euro becomes usable as a unit of account next year, it will not circulate as the only legal tender until July 2002. "So pricing in euros as a standard, transparent practice will not come for several years," said Prof Rhys. Even then, differences in national taxation will mean significant divergence. Denmark, Finland and, to a lesser extent, the Netherlands, all put high taxes on car ownership.

"That will continue to distort the market," noted Mr Hunter-Pearse.

Differential tax rates mean carmakers may still tend to cross-subsidise markets at the pre-tax level to make their cars affordable in high-tax countries. Tax differentials have been one of the motor industry's most powerful defences against European Commission pressure to harmonise prices.

But eventually, even tax differentials are likely to be eroded by cross-border arbitrage. The Commission's fine of Ecu102m ($111m) on Volkswagen for obstructing cross-border purchasing fired a clear warning to carmakers that obstructing cross-border trade would be dealt with severely.

But the UK and Ireland will always face an additional pricing distortion because of cost arguments over right-hand drive versus left-hand drive in continental Europe.

Price convergence could in time prompt carmakers to re-examine dealer networks. Currency risks and bureaucratic barriers have hindered cross-border trade in the past, irrespective of potential savings. Remove the disincentives, however, and a buyer in Italy's Alto Adige may prefer to shop in Innsbruck than, say, Bolzano. Such new affinities could force manufacturers to redraw dealer and distribution territories.

The euro also has big implications for manufacturing and components, with decisions becoming based principally on productivity considerations, rather than other factors. "It will not be possible to hide behind a weak economy with devaluations," argued Prof Rhys.

Manufacturers should be able to plan production and component strategies more consistently and over a longer time. Car and truckmakers should also be able to put in place more permanent and orderly supply chains of components on the basis of the best combinations of cost and quality.

However, most supply contracts last several years and long-term partnerships between car makers and parts suppliers are becoming the norm. So here, too, the changes will be gradual.

All this holds good for production and sales within the EU. But car manufacturing is a global business, so if the euro were to climb against currencies such as the dollar there would be risks for the EU industry's competitiveness. Japan, and the damage done to its domestic production by the long ascent of the yen, provides a chilling example. This would be not so important to companies such as Peugeot and Fiat, whose revenues are still heavily Europe-oriented.

But the UK, as the only big EU car manufacturing country outside the euro-zone, is more vulnerable. Much of its exports, such as Land Rovers, are destined for outside Europe. So keeping sterling out of the first phase of EMU is probably good for the UK industry. "At least, it doesn't do it any harm to have the luxury of time," said Prof Rhys.

Europe backs my crusade, says Blair

By Lionel Barber in Brussels

Britain's crusade for economic reform has transformed the political debate in Europe, Tony Blair, the prime minister, said yesterday. He said the European Union was moving Britain's way, with governments stressing employability, reform of the welfare state and a Union closer to the citizen.

Mr Blair cited this week's Franco-German initiative calling for a decentralised Europe which would respect political and cultural diversity.

Speaking to British correspondents in Brussels ahead of next week's EU summit in Cardiff, the prime minister sounded confident and relaxed. The sole moment of tension came when he was asked whether Britain's influence would wane as a result of his government's decision to stay out of the first wave of countries joining economic and monetary union.

"There has to be an element of common sense... It is obvious that if you stay outside, then you will have less influence over monetary union. That is a choice we have made."

Mr Blair said the Franco-German statement this week correctly identified the need to reconsider the balance between decision-making at EU, national and regional level. In areas such as foreign policy, the environment and the fight against organised crime, he said the 15 EU members should act collectively. But on matters such as employment policy, a "lighter" approach was more effective, with countries applying peer pressure rather than EU legislation.

Some countries have criticised the British presidency during the past six months for tilting toward the US during the crisis over UN weapons inspections in Iraq and ignoring the interests of smaller countries, but Mr Blair vigorously defended the UK's record.

He cautioned against pushing decentralisation so far that it undermined the authority of the European Commission. "You need a strong Commission to push through things like the single market."

On enlargement, Mr Blair said he intended to press for a firm timetable at Cardiff for wrapping up negotiations on the reform of the Common Agricultural Policy, regional aid and the EU budget – the precondition for admitting new members.

The target date would most likely be in March 1999 before European Parliament elections in June, EU diplomats said.

Mr Blair also gave cautious support for a short constitutional conference next year on reform of the EU's institutions, the balance of power between small and larger countries, and an extension of majority voting.

The prime minister clearly hopes that economic reform – or what he calls the "third way" between state intervention and *laisser-faire* deregulation – will take centre stage at Cardiff.

NEWS DIGEST

BELARUS STAND-OFF

Minsk may back down over diplomats row

Belarus hinted yesterday it might cancel an order to foreign diplomats to leave a set of elite residences in the capital, Minsk. It was the first sign that Belarus might back down from a position which threatened to further isolate it diplomatically.

A spokesman for the Belarusan foreign ministry said: "The United States, Russia, Lithuania and France have all protested. At the moment we don't have full information but all diplomatic channels are working very actively."

The Belarusan government, which had wanted the diplomats from 22 countries out by Wednesday, says the residences need repairs. Western diplomats say there is no need for them to move and say Belarus's actions break the Vienna convention on treatment of diplomats.

Workers welded shut the gates to the residences on Monday, sparking a furious reaction from the US which threatened unspecified retaliatory action if the ambassador, Daniel Speckhard, was ordered to move. **Minsk, Reuters**

ITALIAN POLITICS

Forza Italia joins group of MEPs

Silvio Berlusconi, the leader of Italy's opposition Forza Italia, yesterday received a strong political boost when his movement was formally welcomed into the centre-right European People's Party in the European parliament.

The 20 Forza Italia MEPs were admitted to the grouping just one day after Mr Berlusconi indicated he planned to take an increasingly hostile stance to the government that took Italy into a single currency.

The EPP includes the centre-right parties of Germany, Spain and other European Union states. Diplomats in Rome say the inclusion of Forza Italia was backed by Helmut Kohl, the German chancellor and José-María Aznar, the Spanish prime minister, both of whom want to boost the strength of the PPE in the European parliament. **James Blitz, Rome**

TELECOMS REGULATION

Deutsche Telekom set for clash

Deutsche Telekom, the German telecoms company, is on track for a fresh confrontation with the national telecoms regulator. Yesterday, it increased the price it wants to charge competitors for unconditional access to the "last mile" into customers' houses.

The regulator had already rejected a price of DM28.80 ($16.10) a month and set a temporary charge of 20.65. But Deutsche Telekom said its revised calculations showed a price of DM47.26 was justified. At the very least, using less favourable accounting rules, it reckoned a price of DM38.19 was needed. The regulator has until mid-August to decide.

Deutsche Telekom has said the terms on which a deal is finally struck could have a significant impact on its results and dividend. **Ralph Atkins, Bonn**

SWISS LABOUR

Union rejects strike accord

Switzerland's most powerful trade union has refused to endorse the renewal of a labour relations agreement which has covered working conditions in the machinery manufacturing industry since the 1930s.

The SMUV has taken a more militant attitude because of mounting concern about job losses in Swiss industry and worries about working hours, which are longer in Switzerland than in any other industrialised country. The SMUV was one of the architects of a 1937 agreement which ruled out the use of strikes as a collective bargaining weapon.

The agreement is due for renewal on July 1. It has been renewed at five yearly intervals by all of the unions and is often cited as the reason why Switzerland has the best strike free record of any developed economy. **William Hall, Zurich**

Yeltsin wary over strikes on Serbs

By Ralph Atkins in Bonn

President Boris Yeltsin of Russia warned western governments yesterday that military intervention by outside powers could intensify the crisis in Serbia's Kosovo province and trigger wider unrest across the Balkans.

But he signalled a determination to use Russia's influence with President Slobodan Milosevic of Yugoslavia to push diplomatic attempts for a solution to what is rapidly evolving into Europe's worst security problem since the 1992-95 Bosnian war.

Speaking after two days of talks with German government ministers in Bonn, Mr Yeltsin highlighted Russia's reservations about a possible western military strike against Serbian targets.

The involvement of outside powers would be "dangerous" and "would lead to the crisis escalating" across the Balkans, with unpredictable consequences for the whole of Europe, Mr Yeltsin said.

Despite his warning, German and other western officials said Nato would go ahead with preparations for possible military action in order to contain the crisis, which has already seen more than 10,000 ethnic Albanian refugees flee Kosovo.

"We believe that the time is ripe and we feel an urgent need to act in the alliance," Volker Rühe, Germany's defence minister, said. "How long can we regard this as an internal matter? How many people must they kill?"

About 250 people have died this year in a conflict which pits Mr Milosevic's Serbian nationalist, ex-Communist government against ethnic Albanians who form the majority of Kosovo's population and want independence for their province.

Yugoslavia's foreign minister, Zivadin Jovanovic, made clear yesterday that his government was in no mood for compromise when, speaking in Istanbul, he denounced a European Union ban on investments in Serbia as "unnecessary, unprovoked and negative".

The Belgrade authorities see Kosovo as an internal problem and contend that western countries, which do not officially support Kosovo's independence, are unwittingly aiding the secessionists by adopting such a tough anti-Serbian line.

Serb special forces police on patrol in the outskirts of Decani in Kosovo province yesterday AP

Russia is reluctant to endorse western military action in the Balkans, partly because it dislikes the idea that Nato should think itself free to throw around its weight in hot spots near Russia's western flank.

The Kremlin also fears that if western military action resulted in Kosovo's independence, there could be serious destabilising consequences in Chechnya, which wants independence from Moscow, and other restive Russian republics.

However, Mr Yeltsin promised Chancellor Helmut Kohl yesterday that "we will work together in this area".

Mr Yeltsin also said he would seek a meeting with Mr Milosevic, and did not rule out that Russia might add to the diplomatic pressure on Serbia to grant greater autonomy to Kosovo.

During the meetings in Bonn, Moscow made clear that it attached importance to the involvement of the United Nations Security Council.

Britain is sponsoring a council resolution that would authorise eventual military intervention.

See Comment & Analysis

EBRD buys 11.8% stake in Czech bank

By Robert Anderson in Prague

The European Bank for Reconstruction and Development (EBRD) proved its commitment to Czech bank privatisation yesterday by buying an 11.8 per cent stake in Ceska Sporitelna, the dominant state-owned retail bank, for Kč2.5bn ($75m).

The EBRD also announced that its board had approved the purchase of a 30 per cent stake in the failed bank Agrobanka, which the central bank is selling to GE Capital of the US.

It said that it was likely to take a shareholding during the privatisation of either Ceskoslovenska Obchodni Bank (CSOB), the former foreign trade bank, or Komercni Banka, the main commercial bank.

The Ceska Sporitelna transaction is the EBRD's single largest equity investment in a financial institution in central and east Europe and its first equity investment in a Czech bank.

The EBRD, which has sometimes been accused of doing too little in the Czech Republic, has previously announced that it plans to spend Ecu200m-Ecu300m ($224m-$337m) in the Czech banking sector as a whole.

David Hexter, deputy vice-president of the EBRD, said the sale would solidify and make transparent the ownership structure of the bank, in which the only big shareholder was the state with 45 per cent, and assist its full privatisation.

"We look at this as the first stage in the change in shareholder structure of Ceska Sporitelna," he said.

Ceska Sporitelna put together the 9m share package and sold them, at a premium, to the EBRD for around Kč277 a share. Yesterday Ceska Sporitelna shares closed up Kč13 at Kč228.

Maria Luisa Cicognani, the EBRD's principal banker, said the EBRD would consider increasing its shareholding during the bank's full privatisation, or it may sell out to the investors who buy the at least 34 per cent stake the government has put up for sale.

The outgoing government of Josef Tosovsky, the caretaker prime minister, has already placed advertisements asking for expressions of interest in the sale of CSOB, and plans to do the same for Ceska Sporitelna and Komercni by the end of next month.

However, the Social Democrats, who are leading in opinion polls ahead of next week's election, have said that they would like to delay privatisation of Ceska Sporitelna and Komercni until at least 2000.

Ceska Sporitelna could even be the last bank to be sold because, with most Czechs having accounts there, it has extra political sensitivity.

EU moves towards regional aid accord

By Brian Groom in Glasgow

The European Union made progress yesterday towards agreeing controversial regional aid reforms, but pleas for special treatment by individual states mean it faces a hard task to reach an accord by the informal deadline of next spring.

Regional policy ministers meeting in Glasgow gave a warmer welcome to the European Commission's proposals than member-states had offered so far.

"There were much more positive statements on the package," said Monika Wulf-Mathies, EU regional affairs commissioner. "National interests are still, of course, one of the contentious points for future negotiations."

The EU awards regional aid, which accounts for one-third of its budget, in an attempt to reduce the gap between rich and poor areas.

The Commission wants to freeze regional aid at 0.46 per cent of EU gross domestic product in 2000-2006; cut the number of categories from seven to three; and reduce the proportion of population covered from 51 per cent to between 35 per cent and 40 per cent.

Problems in agreeing reforms could jeopardise a wider EU budget deal, which could in turn delay enlargement of the EU into central and eastern Europe.

Although some members argued that funding should be further reduced, the special cases advanced would increase it sharply.

Mrs Wulf-Mathies was pleased that ministers agreed not just on deadlines for decision-making, but on the principle of concentrating aid on the most deprived areas. She said there was a "broad majority in favour of better control and more efficient management".

Members have been happy with proposals to simplify schemes and devolve management to regional partnerships, but reluctant to allow the Commission the degree of detailed control it seeks to ensure accountability.

Margaret Beckett, UK trade and industry secretary, who chaired yesterday's meeting, said cutting red tape would "free resources and offer potential benefits to local people across Europe. It is a natural step to wider reform."

She said Britain would press for a "fairer" share-out of funds, even though a safety net for member-states will limit its losses.

Differences between north and south were still apparent. Greece said the EU budget was not big enough but the Netherlands said 0.46 per cent should be a ceiling rather than a target.

Six countries, including Germany, France and Sweden, objected to proposals to reduce the coverage of state aid to industry and bring it into line with regional aid.

POLISH ECONOMY BALANCED BUDGET IN SIGHT

Crisis fears dismissed by Warsaw

By Stefan Wagstyl and Christopher Bobinski in Warsaw

Leszek Balcerowicz, the Polish finance minister, has dismissed investors' fears that the country might suffer a Russian-style financial crisis.

"The conditions in Poland are completely different from those in Russia. Also, we have taken steps to prevent a crisis developing," he said in an FT interview.

Mr Balcerowicz was speaking in the wake of a sharp fall in the Polish stock market after Russian bonds and equities plunged in May.

The Warsaw Stock Exchange's general index dropped 19 per cent in May to 14,551, its lowest level this year, on concern that the Russian crisis might prompt foreign fund managers to reduce their exposure in other eastern European countries. It has since recovered about one-third of its losses and closed yesterday down 273.3 at 16,027.8.

Mr Balcerowicz said there were "big differences" between Poland and Russia. Russia had severe difficulties in collecting taxes and financing government spending, but Poland was on track to achieve a balanced budget in four years.

Mr Balcerowicz, who is also deputy prime minister in the coalition government, conceded the current account deficit would expand this year from 3.5 per cent in 1997 to an expected level not exceeding 4 per cent. But the gap between the growth rates in imports and exports had been cut, thanks to interest rate increases and other steps taken last year to cool domestic demand. "The current account will stabilise at safe levels," he said.

Mr Balcerowicz expects to start discussions later this month with other ministers on next year's budget. His Freedom Union (UW), the minority partner in the government, is committed to cutting government borrowing and promoting market-oriented policies.

But he is expected to come under pressure to relax the purse strings somewhat from Solidarity Electoral Action (AWS), which dominates the coalition. Mr Balcerowicz said he was looking to speed up privatisation to help finance some extra spending, including planned reforms to the pension system which are due to be introduced in January.

'Conditions in Poland are completely different from in Russia' – Leszek Balcerowicz

Mr Balcerowicz forecast that, given continued good economic conditions in western countries, Poland would achieve gross domestic product growth of about 6 per cent in 1998 and 1999, in line with the government's medium term plan.

Meanwhile, inflation was falling and would meet the government's aim of reaching 9.8 per cent by the end of the year, down from 13.2 per cent at the end of 1997.

Mr Balcerowicz said this would create space for the Polish National Bank, the central bank, to cut interest rates further, after two recent reductions.

The bank cut its widely-watched intervention rate by 1 percentage point in April and 1.5 percentage points last month, but it still stands at 21.5 per cent.

ABDUSALAM ABUBAKAR INITIAL REACTIONS HOLD OUT HOPE THAT THE NEW LEADER COULD PRESIDE OVER A RETURN TO CIVILIAN RULE

Cool professional soldier takes control in Nigeria

By Michael Holman, Africa Editor, in London

As the usually hardbitten and cynical Nigerian newspaper editor listed the virtues of General Abdusalam Abubakar, his country's new military leader, it seemed as if he had gone soft on the soldiers.

Gen Abubakar, he said, was that rare figure among the top military brass: quiet spoken, bespectacled and modest, who dispensed with the panoply of security that surrounds his colleagues.

Then came an aside: "And his health is not good."

The implication was clear. If 100m Nigerians impatient for democracy fail to limit his term in office, then Nature will.

Although the comments may smack of wishful thinking, initial reactions hold out some hope that the new military leader, sworn in yesterday, could preside over a return to the civilian rule promised but not delivered by General Sani Abacha.

Unlike his predecessor, buried in Kano on Monday, whose narrow vision of the world was reinforced by his reluctance to spend much time away from his presidential redoubt in the capital, Abuja, Gen Abubakar may have a wider perspective.

'He rose to the top without holding political office'

Like many of the men who have dominated the armed forces over the years, Gen Abubakar – who turns 56 next week – has his roots in the country's Moslem dominated north.

Brought up in Minna, near the home of his friend and former military leader, Gen Ibrahim Babangida, he began his career in the air force in 1963, before switching to the army.

He won his spurs in the Biafra civil war in the late 1960s, when more than 1m people died during the attempt of the south-east of Nigeria to secede.

"He is jovial, cool under pressure, matured, well-respected and calculated," the independent Thisday newspaper said. "He is one of the few Nigerian generals who rose to the top without holding political office."

Two military training courses in the US in the mid-1970s, and a further spell in Britain, coupled with service in the UN peacekeeping force in Lebanon in the early 1980s turned him into one of the country's most respected soldiers, say colleagues: "A professional without airs," as one put it.

When Gen Abacha seized power in 1993 after the aborted presidential elections intended to return the country to civilian rule, he turned to Gen Abubakar for the sensitive position of chief of defence staff.

Gen Abubakar survived the purges and reshuffles that marked the Abacha years, keeping a low profile. And while senior officers were either retired or arrested, Gen Abubakar remained by Abacha's side.

Now in office, he may well call on the advice of another survivor – Gen Babangida, whom he joined at Gen Abacha's burial at his northern hometown of Kano. He may need all the help he can get, having taken on the high risk job as the ninth soldier to lead Nigeria since independence in 1960.

Gen Abubakar is married to Amina, a high court judge. He has three daughters and two sons.

Africa's 500lb weakling; Editorial comment, Page 15

Abdusalam Abubakar, Nigeria's new leader, is described as 'cool under pressure and calculated' AP

Oil companies are keeping a careful watch

By Robert Corzine

Foreign oil companies operating in Nigeria yesterday said they were "watching and awaiting developments," but that operations in Africa's biggest oil producing country had so far not been affected by the death of General Sani Abacha.

Royal Dutch/Shell, which accounts for about half Nigeria's output of 2.18m barrels a day, said the main oil producing region around the Niger Delta appeared to be quiet, although the company's staff was monitoring the situation closely. "Shell will continue to work with Nigeria," said a spokesman.

Mobil of the US said it too was "watching events, but our operations have not been impacted and we don't expect them to be".

Nigerian domestic politics have long been a touchy subject for foreign oil companies, and their reticence to speculate about the future is not surprising. But the internal debate within the companies is likely to be lively, say industry analysts, who note that Gen Abacha's influence on the industry was large.

One uncertainty is how the minority tribes in the oil producing regions, such as the Ogoni, will react to events. In 1995 Genl Abacha ordered the execution of Ogoni activists, and a number are still imprisoned.

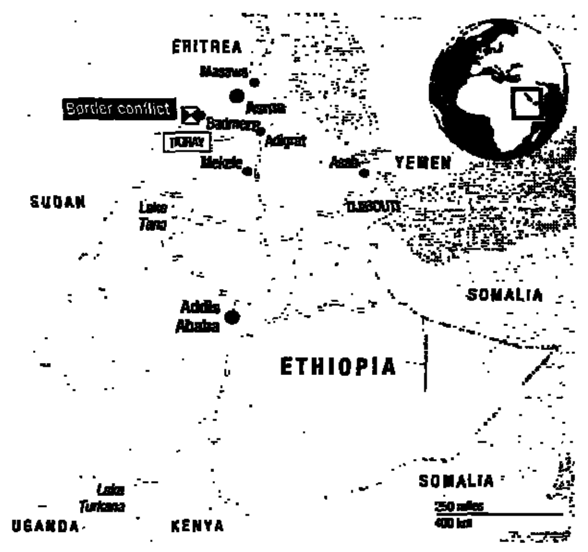
Many residents of the Delta have persistently complained that little money has flowed back into the region from central government coffers. In recent years Shell in particular has been subjected to dozens of "community actions", ranging from demonstrations to the abduction of oil company staff and occupation of installations.

The foreign companies will also be keen to learn whether a change at the top will result in changes at the oil and finance ministries, which between them decide the annual budgets of joint ventures between the Nigerian National Petroleum Corporation and the individual foreign companies. Nigeria has set a 3m b/d production target by 2002, but the foreign companies say the government has failed to make enough money available to fund such an ambitious expansion.

Hurt pride becomes factor in border war

Ethiopian and Eritrean troops are embroiled in some of the most serious fighting yet in their month-long conflict

By Michela Wrong in Senafe, southern Eritrea



The winding road from Asmara to Senafe, the last big town before you hit the border, is a normally busy thoroughfare of trucks heading north with grain from Ethiopia and south to Addis Ababa with fuel from the Eritrean port of Massawa.

But yesterday, the hairpin route through the craggy mountain range was quiet, apart from a few buses and the odd camel.

The dull boom echoing off Senafe's dramatic rock formations explained why: just 25km to the south, Ethiopian and Eritrean troops were embroiled in some of the most serious ground fighting yet in their one-month conflict.

The clash, taking place behind a military checkpoint closed to journalists "for their own safety", began at dawn and, according to the Eritreans, was successfully repulsed.

If their claim that it was initiated by the Ethiopians is to be believed, and this war has been characterised by completely contradictory statements from both sides, that attack may have been launched to restore hurt Ethiopian pride.

Over the weekend, Ethiopian newspapers had asserted that Addis Ababa had reconquered the border town of Zalambessa, which straddles the frontier – an assertion conclusively and embarrassingly disproved on Monday when journalists following the Eritrean army penetrated some 20km into Ethiopian territory.

Zalambessa itself is not generally cited as being in the frontier areas in dispute between the two countries.

However, it lies between two such zones, and no doubt because of its location on a key route, has become a site where military superiority is naturally asserted or denied.

In spite of continuing pressure to halt the fighting, including an appeal by President Bill Clinton, neither of these two notoriously intransigent leaderships looked set to reach a compromise yesterday.

While calling for direct talks in front of third party mediators, Eritrea's President Isaias Afewerki admitted that he expected the conflict to escalate.

Despite pressure to halt the fighting, neither side looks set to compromise

In Addis Ababa, Meles Zenawi, Ethiopia's prime minister, lashed out at what he called "a pattern of prevarication, a pattern of trying to draw out the process and consolidate their hold on our territory," on the Eritrean side.

With no apparent progress on the diplomatic front, the few remaining foreigners in Asmara were getting out before a *de facto* blockade slapped by Ethiopia on Eritrea's air and sea links cut its northern neighbour off from the world.

An aircraft filled with 120 US, German, Egyptian and Ethiopian citizens was due to fly out this evening from an airport which had gone ominously quiet.

Their departure is certain to fuel the expectation in Asmara, where the sense of an undeclared siege is growing, that Ethiopia will take its revenge for its failure to triumph on the ground, by carpet-bombing the city's civilian areas.

The idea of Ethiopia's airforce targeting the capital of its closest ally would once have seemed unthinkable.

But since 44 people died last week in an Eritrean air strike on the northern Ethiopian town of Mekele – deaths the Eritreans say were the result of human error when aiming for Mekele airport – emotions in Addis Ababa are running high.

Repression of unions 'on the increase'

By Frances Williams in Geneva

Repression of trade union activities is increasing around the world, the International Confederation of Free Trade Unions says in its annual report on trade union rights published yesterday.

The ICFTU, the largest international trade union grouping representing 125m workers in 141 countries, says trade unionists are still being killed, imprisoned and intimidated 50 years after the International Labour Organisation adopted a convention upholding union rights. It is estimates 116 states are violating trade union rights.

It attributes the worsening trend, in part, to a clampdown on trade union action. It denounces the harmful effects of globalisation, such as exploitative working conditions in export processing zones.

Colombia has the worst record on trade union rights, accounting for more than half – 156 – of the 299 people murdered last year because of their union activities. The ICFTU blames most of the Colombian killings on paramilitary death squads.

Another 1,680 trade unionists around the globe were tortured or ill-treated, while 2,330 were detained. There were 3,370 recorded cases of intimidation, according to the report. Unions in 79 countries were subject to blatant interference or restrictions contrary to ILO conventions.

These included Norway, which has banned strikes in the oil industry, Germany which forbids civil servants to strike, and Australia which encouraged measures by port employers to break the power of the dock workers. In the US at least one in 10 workers campaigning to form a union is illegally sacked, the ICFTU claims.

Indonesia is cited for harassing the independent trade union SBSI, including throwing Mucktar Pakpahan, its leader, in jail. However, he was released last month after President Suharto stepped aside, and under international pressure the new government speedily ratified the 1948 ILO convention which enshrines the rights of workers to freely organise and join trade unions.

Addressing the ILO's annual conference in Geneva, Fahmi Idris, Indonesia's manpower minister, yesterday confirmed that his government would soon ratify three other key ILO conventions outlawing forced labour and discrimination in employment, and establishing a minimum working age.

● The ICFTU yesterday called on General Abdusalam Abubakar, Nigeria's new ruler, to restore trade union freedoms, release jailed trade unionists and return the country to civilian rule. In March the ILO established a committee of inquiry on abuse of trade union rights in Nigeria.

Israeli opposition leader looks for alternative path to peace

Barak 'would not be blackmailed' by religious parties and 'would negotiate rather than impose' a settlement. **Judy Dempsey** reports

When Ehud Barak was elected leader of Israel's opposition Labour party just over a year ago, there were mixed feelings about his ability to unseat Benjamin Netanyahu as prime minister.

A former chief of staff and one of Israel's most decorated soldiers, Mr Barak could hardly match what he himself terms Mr Netanyahu's "master of spin" and "pretending".

In an interview with the FT, Mr Barak, 56, said it was time for Mr Netanyahu to push forward the peace process or else make way for a better government.

In some ways, Mr Netanyahu has never looked weaker. He is increasingly beholden to the religious parties who hold the balance of power. He has slowed the peace process even though the majority of those questioned in recent opinion polls want Israel to pull back from the West Bank. He has damaged relations with the US, the European Union and Arab states because of what they said is his intransigence on coming to a deal with the Palestinians.

Yet Mr Barak has failed to capitalise on Mr Netanyahu's failures and to make a decisive impact on opinion polls, in which they are roughly equal.

Some of Mr Barak's colleagues said this was because he is a reluctant leader of the peace camp. Others said he had failed to build a core leadership, a shadow cabinet and a coherent strategy. Meanwhile the traditional leftwing/peace activists said he shunned Yassir Arafat, president of the Palestinian Authority, as much as he avoided conflict with the settlers in order to win over the centre.

Mr Barak's response is that with his security background he is trying to create a wider internal consensus for peace. "Mr Security", as he is sometimes known, said he can deliver on peace, security – and defeat Mr Netanyahu.

With the Palestinians, he said he did not care if they established their own state provided it had no modern air force or surface-to-air missiles. But in talks he would establish "red lines": Jerusalem would stay united; there would be no return to pre-1967 borders; no modern armed forces west of the Jordan river; and "most of the Jewish settlements in a few big blocks, but not necessarily all the isolated settlements, would stay under our sovereignty".

These red lines hardly differ from Mr Netanyahu's agenda. But Mr Barak's agenda does differ in two respects. He said he would not be blackmailed by any of the ultra-orthodox or religious parties who hold the balance of power in the Netanyahu government: "They will not have leverage," he said. His bill to draft religious students into the army has already won wide support from seculars and boosted party morale.

And unlike Mr Netanyahu, Mr Barak's view of security is based on negotiating and not imposing a peace on the Palestinians or Israel's neighbours.

"Mr Netanyahu's tactics of manoeuvring, deceiving and delaying the peace process ruins the mutual trust, the essence of any negotiations. Without trust, Netanyahu found himself suspecting the other side of trying to destroy the peace process. It becomes a self-fulfilling prophecy," said Mr Barak. He has no doubt if the peace process stops, "we will end up with a volcanic eruption with a lot of people dead".

To revive the peace process, Mr Barak would stop cornering Mr Arafat. "We don't have any interests in cornering Arafat, our rival but also a partner," said Mr Barak. "What would be the point? He could be replaced by Sheikh Ahmed Yassin [the spiritual leader of Hamas, the Islamic Resistance Movement], who is getting tens of millions of dollars from Arab governments to finance terrorism."

With Hamas getting stronger, Mr Barak is contemptuous of Mr Netanyahu for squandering the chance to make a "reasonable peace" before the window of opportunity closed.

That window of opportunity for peace opened with the end of the cold war and Gulf war. It will, said Mr Barak, be closed when "some Arab nation will have nuclear devices and the means to launch it or maybe through a new wave of fundamentalist vitality among Moslem nation states".

In the meantime, Mr Barak blamed Mr Netanyahu for failing to consolidate relations with its neighbours, with Egypt and Jordan with whom Israel signed peace treaties in 1979 and 1994 respectively. He said he would "conclude the inner ring" of peace treaties by adding to it a Palestinian, and even a Syrian treaty which is "achievable".

Yet in trying to forge trust and revive good relations with its neighbours, Mr Barak has no illusions about the difficulties ahead in achieving peace. "There will be terror. We are not going to lie to the people. We will tell them the truth. But I have reached the conclusion that we need peace for the security and continuation of Israel."

NEWS DIGEST

GUINEA BISSAU

Rebel leader demands president's resignation

The head of rebel forces in Guinea Bissau yesterday demanded the resignation of President Joao Bernardo Vieira to spare the country bloodshed, saying the government had lost control.

Proclaiming himself head of a provisional military junta, Ansumane Mane, the former armed forces' chief whose sacking on Saturday sparked the revolt, said government troops were powerless to prevent rebels taking over.

There was no immediate response from the government whose forces apparently launched a failed bid to drive rebels out of their stronghold in a military complex on the outskirts of the city earlier in the day.

Shortly after the rebels issued their statement, heavy shelling was heard from around the barracks but it was not immediately clear who was doing the firing.

Mr Mane said his troops, entrenched in a military complex on the outskirts of the capital, could launch a general offensive to seize the city but they were anxious to avoid civilian casualties.

Mr Mane, whose sacking was linked with charges that senior army officials had been involved in arms smuggling, said his forces had no long-term political ambitions and that the junta aimed to prepare "free and transparent" elections in July. **Reuters, Lisbon**

SOUTH AFRICAN SCHOOLS

Teachers in go-slow protest

South Africa's education system nearly ground to a halt yesterday as thousands of teachers joined a go-slow to protest against staff rationalisation.

Industrial action started yesterday morning after negotiations between the education ministry and the teachers' union, ended in deadlock. Negotiations were resumed yesterday in a bid to avert marches tomorrow and a full-scale strike next week.

The industrial action underlines the widespread opposition to the government's tough stance on fiscal policy. It has insisted on cutting the deficit to 3.5 per cent of gross domestic product from about 4 per cent, despite economic growth falling far short of initial expectations.

Education has come off relatively lightly in the deficit-cutting exercise, with spending on education still a relatively high 7 per cent of GDP, up from the previous fiscal year's 6.6 per cent.

Although spending on education is comparatively high, most of it goes towards salaries and the government wants to cut back on personnel costs to free up resources for building schools and providing books. **Greta Steyn, Johannesburg**

UZBEKISTAN

Warning on Islamic extremism

Islam Karimov, the Uzbek president, yesterday called for a clampdown on Islamic extremism in Central Asia and urged regional governments to tighten border controls against the spread of religious fundamentalism.

"Religious extremism knows no borders and so it poses a threat to all of us," said Mr Karimov.

Karimov said up to 80 per cent of Uzbeks were Moslem and said religious freedom should be safeguarded for all. But Mr Karimov, who keeps a tight grip on his country of 24m, added that extreme forms of Islam threatened regional stability.

Uzbekistan fears the spread of radical Islamic ideas from neighbouring Afghanistan, now mainly in the hands of the Taliban militia. **Reuters, Astana**

Poles' steel sell-off may defuse row

By Samer Iskandar in Brussels

Poland's state-controlled steel industry is to be privatised by 2001, according to a report submitted this week by the government to the European Union.

The report is expected to defuse a potential trade war that has been brewing since Poland failed to reduce import duties on steel from the EU. Under an existing agreement, Poland was scheduled to lower its 9 per cent duty on EU steel to 6 per cent last year and 3 per cent this year. Last year the EU requested a comprehensive restructuring plan for the Polish steel industry, in exchange for accepting a one-year extension of the 9 per cent duty.

An EU official said the Commission was "very happy" to have received the report, but that it was "going to take time to assess the proposals" contained in the 150-page document.

Privatisation is part of the 11bn zloty ($3.2bn) plan to transform and modernise the steel industry by 2005. The plan is expected to result in 40,000 redundancies among the industry's total workforce of about 90,000. The Polish official said up to 1bn zloty would be allocated to social measures.

"Thanks to the modernisation plans, in three to four years all our production facilities will be able to face international competition without any subsidies from the state," the official said.

The Commission said yesterday it would send competition experts to Poland, possibly from next week.

EU and Polish officials will meet in coming weeks, before a final version of the report is officially submitted to the Commission by the end of the month.

● The European Union is to provide technical assistance to facilitate Ukraine's accession to the World Trade Organisation.

The decision was reached yesterday as part of the first Co-operation Council meeting in Luxembourg, during which EU and Ukrainian foreign ministers adopted a framework for future talks on trade, investment and nuclear safety. An EU official said the meeting was "the starting point for equal treatment [of EU companies], which should make it easier for EU companies to do business in Ukraine".

The talks, however, failed to resolve a dispute over concessions extended by Ukraine to Daewoo, the Korean car maker. The EU set an ultimatum, giving Ukraine two months to cancel what it describes as discriminatory tax advantages to convince Daewoo to invest in the country. "The concessions basically mean that Daewoo will be the only cars sold in Ukraine for the next decade," said an official close to the negotiations.

Business hopes Clinton will boost long-term China ties

The political climate is less hospitable, but the administration is stepping up efforts to narrow differences ahead of the president's forthcoming trip to Beijing, writes **Tony Walker**

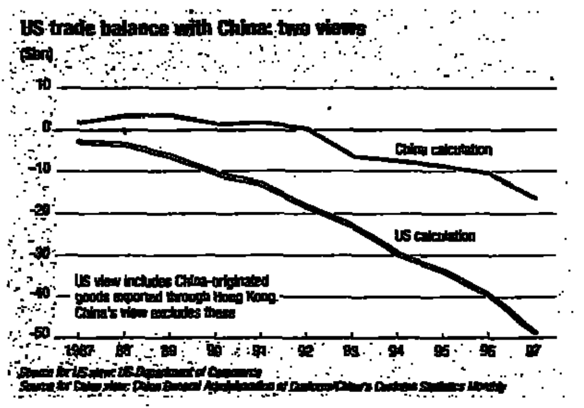
US business hopes President Bill Clinton's forthcoming trip to Beijing will project US-China relations beyond the annual wrangle over Most Favoured Nation trading status and calm congressional opposition to more extensive ties.

Business leaders also see progress on China's accession to the World Trade Organisation as key to a successful mission. The administration is intensifying efforts to narrow differences in preparation for the visit, with the despatch to Beijing of a team representing the office of the US Trade Representative.

"We need to recognise that we are going to have differences, but at the same time build on the preponderance of our strengths," says George Fisher, head of Kodak, which is investing $1bn in China over the next few years.

But US business recognises that allegations both over Chinese contributions to Mr Clinton's re-election and improper transfers of satellite technology have made the political climate less hospitable. Congress's near-unanimous vote seeking to restrict new agreements on technology transfer is one example of the fractious mood.

The US-China Business Council, which represents US companies in China, has stepped up its campaign to emphasise the positive aspects of what is arguably the most important US relationship of the post-cold war period.



But it recognises difficulties exist. "The US-China relationship today requires intensification, not incineration," says Robert Kapp, president of the council.

US companies' success in China is critical for them to maintain global competitiveness, the council says. It notes China has become the US's fifth biggest trading partner, and exports to China (including Hong Kong) have doubled to $35bn since 1990, outpacing the growth of any other major export market.

The steeply rising trade deficit with China has also been a bone of contention in the US. "But despite this rapid growth, US companies face a host of obstacles to penetrating the China market".

Though China is moving from a centrally controlled economy to a more transparent market-based system, it still restricts foreign participation in many areas of the domestic economy.

It maintains a non-transparent and sometimes arbitrary legal and regulatory regime, and denies national treatment to many foreign goods and services, according to the business council.

The council believes further progress on market access to China for US companies is critical to maintaining the momentum of the overall US-China relationship. In a report*, "China and the WTO: Critical Issues and Objectives", the council underscores the importance of the WTO discussions.

"A commercially (and politically viable) agreement must address US industry's concerns for opening China's domestic market to US industrial and agricultural goods," the report concludes.

"Likewise, US service industries deserve access to the Chinese market. Whether China accedes to the WTO in this millennium hinges on Beijing's commitments in these areas." Mr Clinton should make clear that WTO accession will be accompanied by permanent granting of MFN to China, it adds.

Beijing's Forbidden City has remained relatively free of advertising for foreign products but Kodak has made inroads and plans to invest more than $1bn in China during the next few years AP

"Failure to do so at the appropriate time would demonstrate bad faith, and damage the United States' economic interests."

The council report identifies wide gaps between WTO requirements and Beijing's position. US business, which recognises that ultimately political intervention is required to narrow differences, hopes the Clinton mission will spur negotiations in areas where China's offer is inadequate.

The list includes market access for agricultural and industrial goods and services; national treatment where countries undertake not to discriminate against foreign companies in favour of domestic ones; subsidies where Chinese state enterprises continue to receive an unfair advantage over non-state entities, and tariffs where the US in bilateral negotiations on WTO entry has requested cuts in about 4,000 tariff lines.

One of the US's main concerns is that China commit itself to upholding principles of the Information Technology Agreement (ITA), cornerstone of its attempts to preserve open markets for the sale of IT products in which it leads the world.

China is a signatory to the ITA, but its preliminary offer lodged this year is regarded by ITA participants as inconsistent with the agreement. It includes long phase-in periods (in some cases extending beyond 2005) and exempts products of particular US concern, such as telecoms equipment.

Henry Schacht, senior adviser to Lucent Technologies which operates five joint ventures in China manufacturing telecoms hardware, believes the Clinton mission is "very important" as part of efforts to prise open the China market.

"Our mission should be," he says, "to continue to encourage our Chinese friends to move to a more open view of their economy: more transparent, more predictable and more accommodating to what they really want, which is inward investment and and transfer of technology."

**China and the WTO: Critical Issues and Objectives. The United States-China Business Council*

Italy's piracy bill may stem US losses

By James Blitz in Rome

US government officials are closely monitoring the passage through the Italian parliament of new legislation combating video piracy and other forms of copyright infringement.

US industry believes it has lost some $2bn over the last three years through the illegal taping and resale in Italy of videos, compact discs and computer software. Hopes are rising that an "anti-piracy bill" in its final stages of approval will reduce the problem by means of stiffer criminal penalties.

For several years, US companies have been worried by the sheer scale of Italian copyright infringement, which is larger than in any other European state except Russia.

US trade losses from piracy in Italy equalled about $580m last year.

Many businesses both in the US and elsewhere fear that, as the hardware required to record high-quality pictures and sound becomes easier to acquire, the scale of the problem could worsen.

In recent months, the Italian authorities have tried to crack down on the problem by raids on criminal gangs operating in the black market.

In March, police arrested a gang in Naples whose hideout contained 13 items of sophisticated film reproduction equipment and 255 master tapes.

Earlier this month, the authorities in Ravenna carried out a similar raid in which they seized 10,000 floppy computer discs containing individual software programmes valued at around L4bn ($1.1m).

However, Italian officials admit that actions of this kind only scratch the surface of the problem.

The "anti-piracy" bill about to be debated by the Italian chamber of deputies introduces tighter penalties, including a minimum three-year jail sentence and increased fines for people engaged in the business.

"We hope this legislation is going to pass through the chamber of deputies quickly," said one US official this week.

"The effective implementation of anti-piracy laws is of interest to many of our companies."

Piracy problems in Italy are common to those elsewhere, but of particular concern to US officials are pirated videos which are often available long before the original video has come to the market. Unauthorised film performances also take place on some of Italy's 800 private TV stations.

In addition, some 20 per cent of the Italian CD market is made up of bootleg CDs, although the figure in 1995 was even higher at 33 per cent. In Naples, black market CD replicators with a capacity of producing around 2,000 CDs a day are commonplace.

Pirated computer programmes are becoming an increasing problem.

There was considerable publicity in Italy last year when a district judge acquitted a man accused of pirating computer software on grounds that he was not considered to be making a significant amount of money out of the operation. The anti-piracy law is expected to tighten this loophole.

Iridium in 200 telecoms pacts

By Christopher Price in San Francisco

Iridium, the satellite telecoms company which plans to launch the first hand-held gobal cellular phone service in September, said yesterday it had signed agreements with more than 200 telecoms operators around the world.

The deals will mean that the Iridium service, enabling calls to be made to and from any location in the world, will be available to some 72m mobile subscribers.

Users of the service will need a special phone, expected to retail for $3,000. Callers will use the terrestrial networks of Iridium's partners where possible, switching to the satellite system only when a call is made outside their service areas. Cost of a satellite call is likely to be $4-$8 a minute in western markets.

Iridium has also concentrated on marketing the service to developing countries and has signed agreements with some 80 governments or official organisations in Africa, south-east Asia and Latin America. They want the service because it will allow them to have a telecoms network without the prohibitive cost of terrestrial infrastructure. The cost of calls in these regions will be substantially lower.

Iridium, in which Motorola of the US is the biggest shareholder, has not disclosed its prices yet, but analysts think a satellite call in developing countries will cost $1-$2 a minute. Agreements include those with Telecom Italia, Miniphone of Argentina, Cellnet and Orange of the UK, and PageNet of the US.

See Lex comment

Intel vows to fight antitrust charges

By Louise Kehoe in San Francisco

Intel will fight antitrust charges filed by the Federal Trade Commission, if necessary appealing to a federal court to overrule the commission, Craig Barrett, newly appointed chief executive of the semiconductor manufacturer, said during a visit to Tokyo yesterday.

The world's largest chipmaker, Intel is charged with abusing its market power by coercing some of its customers in the computer industry to drop patent claims against Intel. Intel withheld, or threatened to withhold, information about new chips and prototype samples from these customers.

Mr Barrett said the antitrust case would have "little effect" on Intel's business in the short term. However, in the longer term, should Intel lose its legal battle, the case could "chill Intel and all future innovators" and harm the personal computer industry, Intel has argued in a related lawsuit.

The FTC had misinterpreted antitrust law, Mr Barrett said yesterday. The patent infringement disputes were a "customer relations" issue, not a restraint of competition with rival chipmakers, he said. Central to the case against Intel is a dispute between the chipmaker and Intergraph, an Alabama manufacturer of computer workstations. Intergraph separately filed patent infringement and antitrust charges against Intel in November and won a preliminary court order against Intel in April.

The order forced Intel to share information and product samples with Intergraph, pending the outcome of the case. The order is very similar to "remedies" proposed by the FTC, which would apply to all Intel customers.

In its appeal against the judge's order in the Intergraph case, Intel lays out the expected effects in the first detailed indication of how Intel will address the FTC charges. The order "deprives Intel of its right as a patent-holder to selectively license and sell" its technology.

Innovation in the PC industry would slow if Intel was prevented from pursuing its current practice of sharing technology in advance of product introductions with about 20 of its largest customers, Intel said yesterday.

Intel should not be compelled to do business with any particular computer company, the chipmaker argued in the Intergraph case. "Even a monopolist may deal with whomever it chooses and has no general duty to help its competitors," Intel said, citing case law. Appeal courts have held that companies "cannot be held liable under [antitrust law]... by refusing to license the patent to others," Intel said in its legal brief.

Intel's reasons for withholding information and product samples from Intergraph were "very legitimate" the chipmaker argued, noting that it had the right to choose not to do business with companies that filed lawsuits against it.

Intel cuts chip prices, Page 18

Republicans get a queasy feeling as US gears up for mid-term elections

By Gerard Baker in Washington

A few months ago, Republicans had every reason to relish their prospects in this autumn's mid-term congressional elections.

If past contests were any guide, this should prove to be a bumper year for the party in which it could expect to consolidate its grip on both houses of Congress, won emphatically in 1994 and retained in 1996.

For one thing, the party could reasonably hope to gain from a traditional voter swing against the party in control of the White House.

Furthermore, the continuing air of crisis around the White House, engulfed in more sex and cover-up scandals, should strengthen the tide in Republicans' favour, they believed.

It seemed probable that the party's majority of 21 in the House and 10 in the Senate would rise, improving prospects for their legislative plans and giving them a strong launch pad for the presidential contest in 2000.

But as the last major primary contests conclude this month across the country and campaigning begins in earnest for November's elections, the early sunny mood among Republicans has dissipated.

Troubled voices – including advisers to the House Speaker, Newt Gingrich – are suggesting that not only might the party not increase its majorities, but in the House of Representatives at least, it may actually lose seats and perhaps even relinquish control to the Democrats.

And Democrats, having been carefully playing down expectations about the elections, are now suddenly upbeat.

Why have Republicans faltered, and how good are their opponents' chances?

In line with the famous dictum that all politics is local, the reason for the change in sentiment has much to do with a composite of not necessarily related factors in individual districts. But there is also a malaise among Republicans at the national level that seems to be damaging the party's chances.

Even the most optimistic Democrats accept they have almost no hope of winning back the control of the Senate they lost in 1994. The Republicans currently have a majority of 55-45. More Democrat senators are stepping down this year than Republicans, depriving the party of the most powerful electoral weapon – incumbency.

As a result Republicans expect to take a few states – most likely Arkansas and Ohio, where the popular Democrat John Glenn is stepping down. Democrats should win one back in Indiana, where Republican Dan Coats is retiring.

Among the small handful of incumbents who are in some danger, Democrats again outnumber Republicans.

The controversial Al D'Amato in New York is the Republican in most jeopardy – challenged by Geraldine Ferraro, the former Democrat vice-presidential candidate.

On current form, the likely outcome in the Senate is a Republican gain of between two and four seats.

But the House looks rather different. Again incumbency is a big factor. A few months ago, more Democrats were planning to step down than Republicans. But a rash of recently announced retirements among Republicans has deprived them of that important advantage and in early polls, Democrats seem to have a slight edge in the vacant seats.

Many of these are in a large swathe of districts across the Midwest – where, Democrats say, Republicans have picked extreme conservative candidates who are turning off voters.

There is, however, also a national problem – a badly divided Republican party.

The enthusiasm of the party's "young Turks", elected on a conservative platform (the Contract with America) in 1994, has given way to mounting frustration at the apparent timidity of the leadership of Mr Gingrich and some of his colleagues.

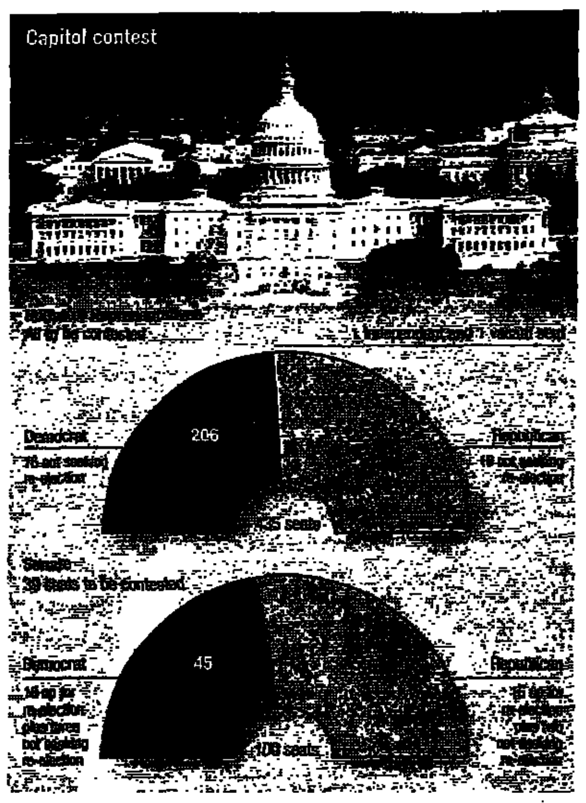
Since the infamous government shutdowns in 1995, the leadership has toned down its radicalism and opted for a quieter life. This moderation and inaction has enraged conservatives.

The Republican divisions have helped Democrats, who by contrast, are displaying a rare unity. The party's more liberal wing in the House has found common cause with the New Democrat moderation of Mr Clinton, around a set of policy initiatives by the president this year in health and child care, social security, and education.

In the end, though, this Democratic recovery will probably stop short of taking them to a majority in the House.

The abiding electoral force this year is likely to be support for incumbents – a strong economy will probably see enough Republican incumbents home to enable them to maintain their majority.

Capitol contest



And yet there is one caveat – the slow but inexorable march of the investigation into the president by Kenneth Starr, the independent prosecutor.

Mr Starr is the genuine wild card in the pack. If between now and November he drops on to the desks of congressmen a report calling for impeachment of the president over obstruction of justice in the Monica Lewinsky affair, the political landscape could change overnight.

While some Republicans hope such a report would turn the tide of public opinion in their favour and against the president, more are troubled that the voters would rally round the president against what is still widely seen as an intrusive and partisan investigation. That could produce big gains for the Democrats.

That is why, for all their public calls for the inquiry to move ahead speedily, many Republicans are quietly hoping Mr Starr will keep his show going until November is safely out of the way.

NEWS DIGEST

US OPTIONS

Bidding war looms for Philadelphia market

The Chicago Board Options Exchange (CBOE), the biggest of the US options markets, yesterday opened the prospect of a bidding war with the American Stock Exchange for Philadelphia's options market. The CBOE yesterday said it was "very open to negotiation" still on all elements of its formal offer for the options business of the Philadelphia Stock Exchange, and stressed that the initial 2.30pm Tuesday expiry time placed on its offer was not "a hard and fast deadline" but intended more as a guide.

The comments came just hours ahead of an expected afternoon vote by the board of the Philadelphia exchange on whether or not to accept the Chicago offer. The New York-based American Stock Exchange (Amex), which has been negotiating its own deal for the options business of the Philadelphia Stock Exchange, has yet to make a public offer.

Whether the Philadelphia board votes to accept or reject a CBOE offer, the deal and possibly further talks are far from over. Any takeover deal must be approved by the 505 Philadelphia Stock Exchange seat holders as well as regulators at the Securities and Exchange Commission.
Nikki Tait, Chicago and John Labate, New York

COLOMBIAN TELECOMS

Bogotá sell-off approved

Strategic investors will finally have a chance to buy a stake in Bogotá's municipally owned telephone company, Empresa de Telecomunicaciones de Bogota (ETB), following technical approval of the sale late on Monday by the city District Council. The world's largest telecoms companies have had to wait more than two years for the opportunity to buy a stake in the biggest of Colombia's municipally owned phone service providers. Numerous attempts by previous city mayors were frustrated by opposition in the Council.

British Telecom, Germany's Deutsche Telekom and US-based GTE are among the most likely contenders to buy an initial block of ETB shares according to investment banks who have followed the progress.

Sergio Regueros, ETB president, said the company was worth $2bn according to a valuation of the company made by Citicorp in 1997.

But he added that the value of the company was expected to increase during the sale process. **Adam Thomson, Bogotá**

US INVENTORIES

Fears of unsold stock ease

US wholesale inventories at the end of April dropped unexpectedly by 0.6 per cent from March's level, the Commerce Department reported yesterday. This will ease some fears that the Asia currency crisis has led to a dangerous build-up of unsold stocks of goods.

However, according to Gordon Richards, an economist with the National Association of Manufacturers, the widely expected economic slowdown is "now in the process of arriving". The overall number of hours worked has stalled this spring, while factory activity has flattened and manufacturing job losses have accelerated.

"Consumer spending will slacken, while employment and income gains fail to sustain the strong growth of the first quarter," Mr Richards said. **Nancy Dunne, Washington**

INTEREST RATES MARKETS EXPECT RISE

A$ fall may force delay in elections

By Gwen Robinson in Sydney

The continued slump in the Australian dollar to 12-year lows fuelled speculation yesterday that a politically risky – and increasingly inevitable – rise in interest rates may force the government to delay elections.

Mr Howard has the authority to call elections any time because of a parliamentary deadlock over his proposed amendments to a controversial aboriginal land rights bill. He has indicated he intends to call an election within three months, although he is not obliged to go to the polls until May next year.

The dollar yesterday resisted repeated attempts by government ministers to reverse its decline, staying around 59 US cents, the level reached on Monday and its lowest point since mid-1986.

Early yesterday, the currency reached a four-day high of about 60.1 US cents following the abrupt scheduling of a 9.30am press conference by Peter Costello, the treasurer, and rumours the Reserve Bank of Australia, the central bank, would announce an increase in the 5 per cent official cash rate to defend the dollar.

But the Reserve Bank made no change to monetary policy, despite evidence it had unsuccessfully spent more than A$3bn (US$1.7bn) since late last week trying to support the currency.

Yesterday Mr Costello merely stressed Australia's economic fundamentals and said the dollar's plunge had "ignored" the economy's steady growth, low inflation and projected budget surplus.

Markets, however, went ahead and priced in expectations of an imminent rate increase of at least 50-75 basis points, sharply lifting yields on Australian bonds and bank bills to their highest levels this year with the benchmark August 2008 government bond yield rising to 5.65 per cent from Friday's 5.52 per cent and 90-day bank bills to 5.71 per cent from 5.12 per cent.

Leading commercial banks added to pressure for a rate increase, saying yesterday they were considering raising interest rates on some fixed home loan products, just days after they cut such rates, while HSBC Australia raised interest rates on some of its term deposit accounts.

The Sydney Futures Exchange, meanwhile, reported the most active trading day in its 38-year history and said trading in its benchmark interest rate contracts showed a "massive change" in market sentiment toward monetary policy.

For Mr Howard, however, an increase of one percentage point or more in interest rates would be deeply unpopular and almost certainly force the delay of elections beyond his desired schedule of August or September, commentators said.

"Things have steadily gotten worse for the government: they've just fallen behind (the Labor opposition) again in the polls, they're facing further damaging revelations in the waterfront dispute and they're likely to lose the Queensland election (to be held this coming weekend)," said John Edwards, senior economist at HSBC Markets.

The dollar's recent slide made it "virtually impossible" for the government to meet its inflation target of 2.75 per cent in the financial year to June 1999, he added.

The economy grew 4.9 per cent in the year to March despite Asian economic turmoil, and interest rates are at their lowest in nearly 30 years.

Mitsui being investigated over development aid bid

By Michiyo Nakamoto in Tokyo

Japan's foreign ministry is conducting a highly unusual investigation of Mitsui, one of the country's leading trading companies, for possible irregularities in its successful bid for a government aid contract in Bhutan.

It is examining whether Mitsui was involved in the misappropriation of at least Y40m ($285,000) in Official Development Assistance (ODA) by a consulting company, Nippon Telecommunications Consulting.

NTC, which has publicly admitted to the allegations, has been banned from ODA contracts for nine months and ordered to repay some of the funds.

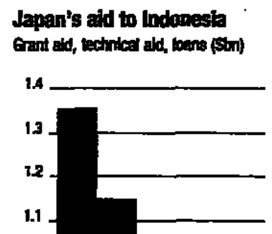
Mitsui, which won the bid to provide equipment for the project, denies that it was involved in any misappropriation.

"We thought the consulting company had adopted the necessary procedures," Mitsui says.

However, the foreign ministry believes that, given Mitsui's expertise in ODA projects and the fact that its staff were present at consultations on the Bhutan project, "it is difficult to believe that Mitsui was not involved".

The revelations support a widely held view that when politicians, trading companies and Japanese official development assistance come together, the result is often open to question.

Japan's aid to Indonesia
Grant aid, technical aid, loans ($bn)



Source: Ministry of Foreign Affairs

Japanese ODA in Indonesia, the largest recipient of Japanese aid and a country whose ruling élite has long had close ties with Japanese businessmen and politicians, is particularly telling of the way in which vested interests eat into ODA funds, critics say. Indonesia received $965m in ODA in 1996. Cumulative yen loans to Indonesia reached Y3,100bn in 1997.

"There are many, many people [in Japan] who will be nervous about the investigations into Suharto's fortunes," says one business consultant who worked in the region for a Japanese steelmaker for many years. He says that "a large proportion of ODA project feasibility funds is actually used as manipulation money".

Critics claim a large share of Japanese ODA investment has enriched members of the Suharto clan. "Clearly the backlash against Suharto will affect Japanese ODA projects," says Yoshinori Murai, professor at the Institute of Asian Cultures at Sophia University.

"Suharto's assets, which are said to total about $16bn, are not something that a government employee can make on his own," Mr Murai says.

Kenichi Asano, a professor of journalism at Doshisha University, who has written extensively about Japanese ODA in Indonesia where he worked for three years for Kyodo, the news agency, says: "Kyodo was in the same building as the Humpus Group, controlled by Suharto's third son, Hutomo Mandala Putra, or 'Tommy'. The staff of Japanese trading companies would stop by and say they had just delivered gift money to him," Mr Asano says.

Such accounts are rife. "When I did business in Indonesia, we took a lot of 'gifts' to the head of Pertamina, the national oil company."

Indonesia may be particularly susceptible to corruption involving Japanese ODA. With its rich natural resources, Indonesia brings together the interests of politicians, bureaucrats and businessmen alike.

Many ODA projects are in fact initiated by Japanese companies, mainly trading companies, which must then seek the approval of politicians in the recipient country.

"Japanese ODA projects are highly politicised," says one foreign government adviser. "There are licences to be obtained. These things take political approval."

ODA disbursement is also highly politicised in Japan, where politicians have enormous influence over the final decision, says Yukihisa Fujita, a Democratic party member of parliament. Poor disclosure and a lack of checks are other problems.

The foreign ministry emphasises that Japanese ODA has helped Indonesia's modernisation and is increasingly focused on helping the socially and economically disadvantaged.

But by supporting the Suharto regime, Japanese ODA has tolerated corruption and disregard for human rights, says Mr Asano.

Thais scale down airline sell-off

By Ted Bardacke in Bangkok

Thailand's cabinet yesterday approved a scaled-down plan to sell 30 per cent of the government's stake in the state-owned airline, Thai Airways International, via the Thai stock market.

The decision raises questions about the government's commitment to an ambitious privatisation programme which faces strong resistance within both the government and among management and employees of state-owned enterprises.

The cabinet shot down a plan proposed by the finance ministry to sell 25 per cent of the company to a strategic partner, possibly one of the five other international airlines linked with Thai Airways in the worldwide Star Alliance. British Airways, Qantas and Northwest Airlines had also been mentioned by Thai officials as possible suitors.

A sale of this sort had been promised earlier this year to the International Monetary Fund.

Instead, the sale of 235m government shares, plus a further 100m new shares to be issued by the company to raise capital, will "not be limited" to potential strategic partners and the company was encouraged to sell shares to individuals and institutions on the stock market, leaving Thai Airways management in control.

The Ministry of Transport and Communications and the Thai Airways board of directors will also dominate the process of selecting underwriters for the sale, as well as its timing, a government official said.

The decision is a significant defeat for the finance minister, Tarrin Nimmanahaeminda, who was absent from the cabinet meeting on a trip to the US.

The deputy finance minister, Pisit Leeahtam, has said he believes it will be difficult for the privatisation process to proceed swiftly unless the finance ministry has ultimate control of the process rather than the individual ministries which oversee state-owned enterprises.

The finance ministry could regain the upper hand later this year if it is successful in pushing through its versions of a privatisation master plan and a privatisation law, as it has pledged to the IMF.

NEWS DIGEST

DEFLATIONARY RISKS UNDERLINED

Japanese wholesale prices fall 2.3% over year

Japanese domestic wholesale prices tumbled 2.3 per cent in the year to May, highlighting the weakness of the country's industrial demand. The drop represents an 11-year record fall for the second consecutive month. In April the wholesale price index (WPI) also fell 2.3 per cent, a rate last seen in 1987.

The huge decline illustrates the deflationary risks which are stalking the Japan as its economy teeters near recession.

The weakness of the yen, which during trading in Tokyo yesterday touched Y141.11 against the dollar, its lowest for seven years, has pushed up the costs of Japanese imported goods in recent months, the WPI data showed. Import prices rose 1.2 per cent between April and May, the highest increase for five months. But this surge in import prices was still offset by deflationary pressures within Japan. Domestic prices fell 0.1 per cent between April and May, the fifth consecutive month of a fall. **Gillian Tett, Tokyo**

JAPANESE DEREGULATION

Call to end oil industry curbs

Japan's oil industry moved a step closer to deregulation yesterday as a government advisory panel called for removal of price restrictions and urged more company mergers by 2001. The report of the Petroleum Council at the Ministry of International Trade and Industry (Miti) paves the way for consolidation in the overcrowded industry.

"As international oil markets have expanded, Japan's industry has lost significance" because of government regulations, the report said.

It urges an end to time-consuming hearings needed for mergers. Restrictions on new refinery construction would be lifted and inspection requirements for existing refineries loosened.

The report follows reforms over several years that have opened the market to new oil importers and lifted the ban on self-service stations. The proposed new deregulations would limit Miti's policy of keeping the big five oil groups' market share. This should in turn will accelerate cost-cutting and capacity reduction, industry analysts said. Low retail prices, because of fierce competition at petrol stations, have reduced margins for oil companies. **Alexandra Harney, Tokyo**

INDIAN PARLIAMENT

BJP 'boosting temple plans'

Opposition parties disrupted India's parliament for a third successive day yesterday claiming the Bharatiya Janata party, which heads the coalition government, was tacitly encouraging moves by militant sister Hindu organisations forcibly to erect a Hindu temple at Ayodhya. Hindu zealots in 1992 ransacked a mosque at Ayodhya, sparking inter-religious riots in which thousands died.

The allegations, denied by BJP leaders, surfaced amid press reports that the Vishwa Hindu Parishad, a religious associate of the BJP, has been overseeing construction and carving of pillars and fittings, apparently for such a temple, at workshops in Rajasthan and near Ayodhya. VHP leaders were prominent in rallying support for the 1992 assault on the Ayodhya mosque – which they say was raised on the "birthplace" of the Hindu god Ram. **Mark Nicholson, New Delhi**

The World Cup: 704 footballers, 64 games spread over 33 days and a cumulative television audience forecast at 37bn. Today the curtain rises on arguably the greatest sporting show on earth

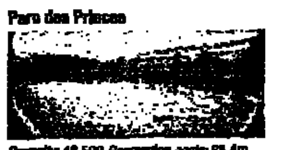
Stade de France

Capacity: 80,000 *Building costs:* £287m
Stunning on the outside, if uninspiring inside, this is France's first privately financed stadium (the government contributed 47 per cent). Engineers will drool over its dish-like roof, and fans will applaud the innovative lower tier seats, which move closer to the touchlines, over the track.

Stade Félix Bollaert

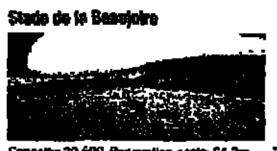
Capacity: 41,649 *Renovation costs:* £14.1m
Followers of Lens' beloved Blood and Golds have just celebrated their first French championship. The World Cup is an extraordinary event for this former mining town, the smallest community ever to stage a finals match. All 35,000 Lensois could fit into this English-style ground.

Parc des Princes

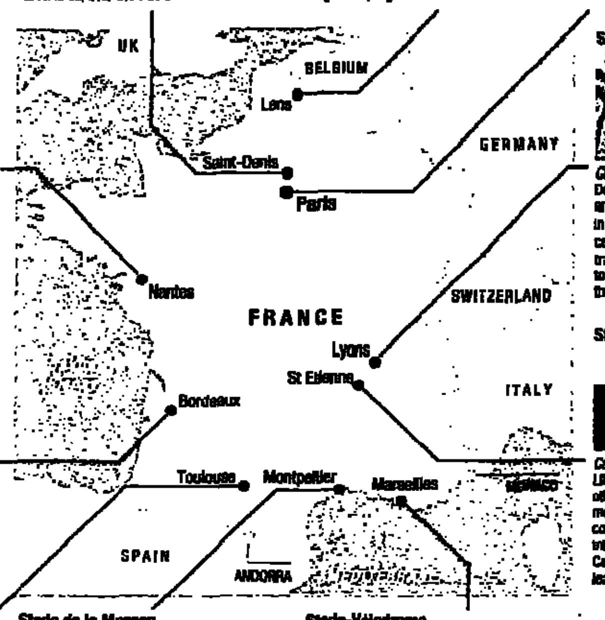


Capacity: 48,590 *Renovation costs:* £5.4m
Formerly the national stadium, this compact but brutal 1970s concrete bowl needed little work for the World Cup. Uniquely, the Peripherique motorway runs directly under one corner of the stadium. The Parc also wins the prize for the most stylish tip-up seats in Europe.

Stade de la Beaujoire



Capacity: 39,500 *Renovation costs:* £4.3m
Built for the 1984 European Championships, La Beaujoire was once at the cutting edge of stadium design. Its sweeping roof still looks good, but the concrete structure has not aged well. Yet the viewing is excellent, and the notorious Atlantic breezes have been blocked out by glass screens behind the back rows.



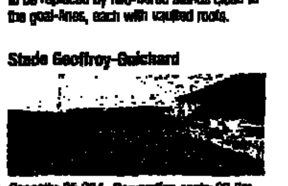
Stade de Gerland

Capacity: 43,895 *Renovation costs:* £8.7m
Designed by Lyons architect Tony Garnier and hailed as a classical icon when opened in the 1920s, only the outer walls and four ceremonial archways survive. Gone are the track and the huge open banks at each end, to be replaced by two-tiered stands close to the goal-lines, each with vaulted roofs.

Parc Lescure

Capacity: 36,500 *Renovation costs:* £6.2m
A curio from the 1938 World Cup, the Parc's listed status has meant only minor upgrading. So it remains basic, though charmingly eccentric, with classical urns and sculptures, wavy concrete roofs, protruding Art Deco radio cabins like the bridges of ocean liners, and floodlights, raised and lowered on masts.

Stade Geoffroy-Guichard



Capacity: 35,924 *Renovation costs:* £9.8m
Like Lens, a former industrial city little known other than for football, with a ground modelled along olde English lines - roof columns, perimeter fences and compact intensity. 20 years ago they called it the Cauldron, as "Les Verts" conquered the league. Now they are strictly 2nd Division.

Stadium Municipal

Capacity: 37,532 *Renovation costs:* £17m
A plain anglicised name for what was once a poor venue, but is now much improved thanks to the cycle track's removal and the construction of a light, cantilevered roof over the original bowl. Unusually the stadium sits on an island, allowing the police to control strictly both bridge entry points.

Stade de la Mosson

Capacity: 35,500 *Renovation costs:* £9.4m
Fifteen years ago Montpellier had no footballing status, but now it has a First Division club and a stadium rapidly built up a decade ago. A towering three-tier, uncovered stand has been added for France 98. Its occupants will need strong legs to reach the top, binoculars, and sun cream aplenty.

Stade-Vélodrome

Capacity: 60,000 *Renovation costs:* £39m
Fifa's World Cup criteria required a second semi-final venue holding at least 60,000. Marseilles argued for 50,000. Fifa won. Thus the new-look Vel may look splendid, but it is a low-budget compromise, with three new stands all uncovered and only minimal leg-room.

Stadium information collated by Simon Inglis

FRANCE 98
WORLD CUP

Group A

Jun 10	Brazil v Scotland	St Denis (17.30)
	Morocco v Norway	Montpellier (21.00)
Jun 16	Scotland v Norway	Bordeaux (17.30)
	Brazil v Morocco	Nantes (21.00)
Jun 23	Brazil v Norway	Marseilles (21.00)
	Scotland v Morocco	St Etienne (21.00)

Group B

Jun 11	Italy v Chile	Bordeaux (17.30)
	Cameroon v Austria	Toulouse (21.00)
Jun 17	Chile v Austria	St Etienne (17.30)
	Italy v Cameroon	Montpellier (21.00)
Jun 23	Italy v Austria	St Denis (16.00)
	Chile v Cameroon	Nantes (16.00)

Group C

Jun 12	Saudi Arabia v Denmark	Lens (17.30)
	France v South Africa	Marseilles (21.00)
Jun 18	South Africa v Denmark	Toulouse (17.30)
	France v Saudi Arabia	St Denis (21.00)
Jun 24	France v Denmark	Lyons (16.00)
	S.Africa v Saudi Arabia	Bordeaux (16.00)

Group D

Jun 12	Paraguay v Bulgaria	Montpellier (14.30)
Jun 13	Spain v Nigeria	Nantes (14.30)
Jun 19	Nigeria v Bulgaria	Paris (17.30)
	Spain v Paraguay	St Etienne (21.00)
Jun 24	Spain v Bulgaria	Lens (21.00)
	Nigeria v Paraguay	Toulouse (21.00)

Group E

Jun 13	South Korea v Mexico	Lyons (17.30)
	Holland v Belgium	St Denis (21.00)
Jun 20	Belgium v Mexico	Bordeaux (17.30)
	Holland v South Korea	Marseilles (21.00)
Jun 25	Holland v Mexico	St Etienne (16.00)
	Belgium v South Korea	Paris (16.00)

Group F

Jun 14	Yugoslavia v Iran	St Etienne (17.30)
Jun 15	Germany v US	Paris (21.00)
Jun 21	Germany v Yugoslavia	Lens (14.30)
	US v Iran	Lyons (21.00)
Jun 25	Germany v Iran	Montpellier (21.00)
	US v Yugoslavia	Nantes (21.00)

Group G

Jun 15	England v Tunisia	Marseilles (14.30)
	Romania v Colombia	Lyons (17.30)
Jun 22	Colombia v Tunisia	Montpellier (17.30)
	Romania v England	Toulouse (21.00)
Jun 26	Romania v Tunisia	St Denis (21.00)
	Colombia v England	Lens (21.00)

Group H

Jun 14	Argentina v Japan	Toulouse (14.30)
	Jamaica v Croatia	Lens (21.00)
Jun 20	Japan v Croatia	Nantes (14.30)
Jun 21	Argentina v Jamaica	Paris (17.30)
Jun 26	Argentina v Croatia	Bordeaux (16.00)
	Japan v Jamaica	Lyons (16.00)

The last 16

1	Jun 27	Winner A v Runner-up B	Paris (21.00)
2		Winner B v Runner-up A	Marseilles (16.30)
3	Jun 28	Winner C v Runner-up D	Lens (16.30)
4		Winner D v Runner-up C	St Denis (21.00)
5	Jun 29	Winner E v Runner-up F	Toulouse (21.00)
6		Winner F v Runner-up E	Montpellier (16.30)
7	Jun 30	Winner G v Runner-up H	Bordeaux (16.30)
8		Winner H v Runner-up G	St Etienne (21.00)

Quarter-finals

A	Jul 3	Winner 1 v Winner 4	Nantes (21.00)
B		Winner 2 v Winner 3	St Denis (16.30)
C	Jul 4	Winner 5 v Winner 8	Marseilles (16.30)
D		Winner 6 v Winner 7	Lyons (21.00)

Semi-finals

1	Jul 7	Winner A v Winner C	Marseilles (21.00)
2	Jul 8	Winner B v Winner D	St Denis (21.00)

Play-off for 3rd and 4th

Jul 11	Loser 1 v Loser 2	Paris (21.00)

Final

Jul 12	Winner 1 v Winner 2	St Denis (21.00)

Kick-off times are local (GMT +2 hours) - UK times are one hour earlier

GROUP A

Brazil Morocco Norway Scotland

So who will finish second? Not just in this group but in the entire competition.

Rarely has a World Cup finals opened with as strong a favourite as the Brazilians. Defending champions, ranked No.1 by Fifa, the only team to break the mould of winners from the host region (Sweden 1958) and blessed with the World Player of the Year in striker Ronaldo – it is difficult to see beyond a Brazilian win.

It is a logic accepted by Scotland coach Craig Brown who, minutes after the draw, conceded the group would be about the scrabble for second place.

Brown views such a low-key approach as a positive. He is hewn from the Scottish school of realism which informed his team's route to France. Never the most prolific of goal-scoring sides, Brown reasoned the key would be to not lose and they duly qualified as Europe's best runners-up with just one loss and three goals conceded.

They won seven times but scored just 15 goals in 10 qualifiers and scoring is, again, likely to be their main problem. That being the case, nobody should expect a Mel Gibson-style charge into the opening game against Brazil. Brown's strategy will be damage-limitation in the hope of a draw and strengthened resolve for the remaining group matches.

The key game is likely to be the Scots' match with Norway but it is not likely to be an attractive prospect. Egil Olsen, Norway's coach, is a rigid advocate of football as science, an approach that has taken the country to its second consecutive finals.

But no further. In USA 94 Norway were, arguably, the least attractive team and their loss after the first round was not greatly mourned. Olsen is convinced of his methods; in spite of talented players such as Ole Gunnar Solskjaer and Tore Andre Flo and the 1994 failure, the Norwegians will once again test his belief that football by numbers can take them into the last 16.

All of which is good news for Morocco, the supposed minnows of the group. They were the first African team to reach the last 16 (in 1986 in Mexico), and they also qualified for USA 94. The Moroccans are guided by wily Frenchman Henri Michel and qualified with a goals-for record of more than two a game. They will certainly not regard the challenge presented by Norway and Scotland as insurmountable.

But, perhaps fittingly, the qualifying process in Group A is likely to be dominated by negatives. It is safe to assume serene progress for Brazil and the second place may well be decided by the other teams' performances against the champions. With the three all capable of taking points from each other, whichever fares best against Brazil could join them in the second round.

Matthew Pettipher

GROUP B

Italy Chile Cameroon Austria

There will be more than the usual frisson of nerves when Italy face Chile in the opening match of Group B, as the European favourites must open their campaign without their most accomplished striker – Alessandro Del Piero, who is still not fit after last month's European Cup final. Lovers of attacking football will, however, be able to another of the world's most accomplished strikers, in the form of Chile's Marcelo Salas.

Del Piero is the key figure of an Italian side shaken by a stuttering qualifying campaign. He is the natural heir to Roberto Baggio, who dragged a poor Italian side into the 1994 final virtually single-handed and is expected to take his place in tomorrow's game.

It looked as if the divine ponytail would never get the chance to redeem himself after missing the decisive penalty in that final. But his form has been irresistible, even to Cesare Maldini, and his recall brings the enticing, but unlikely, prospect of pupil and maestro taking the field together.

Elsewhere, Maldini's midfield is strong and functional, although Francesco Moriero can provide flashes of inspiration, while the defence is, untypically, a cause for concern.

Chile's hopes rest heavily on "El Matador", Salas, and fellow striker Ivan Zamorano, who is outstanding in the air. But this dangerous strike force may be let down by a less-than-distinguished midfield and defence.

There are few signs that Cameroon, led by their new coach Claude Le Roy, can match their performances in 1990: a depressing African Nations Cup campaign in February ended with a shock exit at the hands of Congo Democratic Republic. They have firepower up front – looking to the J.League's top scorer in 1997, Patrick Mboma, and French-born youngster Joseph-Desiré Job for goals – and the dreadlocked Rigobert Song, who played in USA 94 as a 17-year-old, at the back. But inexperience in the rest of the side is likely to frustrate the Indomitable Lions' ambitions.

Even less is expected from Austria, whose last taste of World Cup success came in 1978 with a famous 3-2 victory over the Germans. A string of terrible recent results – including losses to Hungary and the US – has heaped pressure on coach Herbert Prohaska.

The veteran 34-year-old Toni Polster, who scored seven goals in the qualifying campaign, and the skilful midfielder Andreas Herzog are the men to watch but a shortage of younger talent threatens Austria's chances of progressing to the second round.

Peter Aspden

GROUP C

France South Africa Saudi Arabia Denmark

When South Africa were drawn in the hosts' first round group, their immediate reaction was to write off any chance of winning their opening game against France. For South Africans, home advantage means the "Mandela effect" which swept them to victory in the rugby World Cup and then the 1996 African football championships.

Marseilles is not Johannesburg. Jacques Chirac is not Nelson Mandela and all the pressure on June 12 will be on "les bleues". But Group C should still be won by the hosts.

French coach Aimé Jacquet, who retires after the World Cup, has brought his charges a long way since they failed to qualify for either of the last two World Cups and flopped at Euro 96. The key player is Juventus's Zinedine Zidane, the midfield general whose passes hold the side together.

One of Jacquet's nightmares is for Zidane to be ruled out by injury or yellow cards. Another is a repetition of the goal famine that saw the Blues fail to score in their Euro 96 quarter- and semi-final games, before going out on penalties.

Like Denmark, Saudi Arabia have only reached the finals once before but they have one of the tournament's most experienced coaches in Carlos Alberto Parreira and happy memories of 1994, when they logged surprise wins against Belgium and Morocco before going out to Sweden in the second round. Striker Said al-Owairan's role as danger man has passed to the mercurial Sami al-Jaber, while athletic goalkeeper Mohammed Al-Deayea is one of the best in the business.

Then there are South Africa's Bafana Bafana, debutants at World Cup level but gaining fast on the rest of the world after the years of apartheid-induced isolation. South Africa's novelty value and their 1996 African Nations Cup win mean they have played most of the world's top sides over the past four years, including Brazil, France, Germany and Argentina. They have made a habit of losing – including to Saudi Arabia in last year's Confederations Cup.

Their poor performance in that tournament saw Clive Barker replaced as coach by Jomo Sono, who took them to the final of the African Nations Cup in Burkina Faso this year, before Frenchman Philippe Troussier took over in March. Phil Masinga and Lucas Radebe provide the experience, Ajax's young striker Benni McCarthy, the flair. But the lack of a settled squad and Troussier's abrasive style could be their downfall.

Can Denmark make an impact in such company? It is 12 years since they last reached the finals, when they got to the second round. Today's squad is a three-man band led by the Laudrup brothers Michael and Brian and goalkeeper Peter Schmeichel. Unless the rest can raise their game, the Danes look set for an early flight home.

Nim Caswell

GROUP D

Spain Nigeria Paraguay Bulgaria

Perennial under-achievers at World Cup level, Spain are the favourites to top Group C. But there are no easy rides in a group that includes Nigeria, the reigning Olympic champions, the 1994 semi-finalists Bulgaria, and South American qualifying group runners-up Paraguay.

Spain's prowess at club level was once again evident last month, when Real Madrid won the European Champions Cup. Yet the national team have never progressed beyond the World Cup quarter-finals, typically falling victim in 1994 – as did Nigeria – to an apparently inferior Italian side.

Coach Javier Clemente's squad blends long experience, in the shape of veteran goalkeeper Andoni Zubizarreta, with the exciting Real Madrid strike force of Raul Gonzalez and Fernando Morientes. At only 20 years old, Raul is being seen as the heir apparent to Julen Guerrero, the Spanish golden boy who took the team to the quarter-finals in 1986 and 1994.

Spain hit a good run of form in the run-up to the finals, going 31 games without defeat in open play until they were beaten by France in a friendly in January.

Nigeria's lack of recent international experience – they have played fewer games since 1994 than any of the other 31 finalists – makes them an unpredictable force. The West Africans showed enough individual flair, teamwork and collective will in beating Brazil and Argentina to Olympic gold, to suggest a potential upset in France. Yet their warm-up series, culminating in a 5-1 thrashing by Holland on June 5, suggests otherwise.

Coach Bora Milutinovic, who took charge early this year, will build his side around a solid midfield of 1994 World Cup and 1996 Olympic veterans Sunday Oliseh, Augustine "Jay-Jay" Okocha and attacker Daniel Amokachi. Rugged defenders Taribo West and Uche Okechukwu will have to be careful over the new ban on tackling from behind and Nigeria lack a reliable target man to replace the ageing Rashidi Yekini and out-of-form Emmanuel Amunike.

The ageing Bulgarian contingent know something about Nigeria, having lost to them in the opening round in the US. Coach Hristo Bonev is downbeat about their chances in France but veterans Hristo Stoichkov, Georgi Ivanov and Emil Kostadinov could still cause an upset.

The same could be said of Paraguay, for whom almost anything is possible under their goalkeeper, penalty-taker and general inspiration, Jose Chilavert. Teamwork took Paraguay through the marathon South American qualifying round but Brazilian coach Paulo Cesar Carpegiani has been having trouble imposing his will on the squad since.

Nim Caswell

GROUP E

Holland Belgium Mexico S Korea

Holland look to be the one decent team in this group. There are so many depressing things to say about the other three sides that it is hard to know where to start.

The Dutch have won their last two friendly matches 5-1, against Paraguay and Nigeria, the latter tipped by some wilder minds as potential surprise winners of the World Cup. Even without Dennis Bergkamp, who may miss the opening games with a hamstring injury, Holland have some of the world's best passers of the ball in Ronald and Frank de Boer and Clarence Seedorf.

Admittedly, Holland's racial divide into black and white camps, fatal in Euro 96, still lurks: the squad has the feel of a diplomatic summit between two nations that have only just made peace. The worst moment of the qualifiers came when Holland were awarded a penalty against Turkey, and Seedorf – spokesman for the black players – decided, unilaterally, to take it. While the De Boer twins turned their backs in protest, he kicked the ball over the bar.

Holland's other flaw has been a lack of "men with beards". This is a pretty, but somewhat lightweight team. However, the return of Edgar Davids, confrontational on as well as off the pitch, has helped. Davids had been out of the squad for two years after insulting Guus Hiddink, the coach.

The Belgians traditionally surprise their betters at World Cups but the present side – twice humiliated by Holland in the qualifying round – appear a bit too leaden for that. Luc Nilis and Luis Oliveira are clever forwards; Mbo and Lokonda Mpenza, young immigrant brothers from Zaire, have pace and bite; but to see what the Belgian public thinks, study a recent poll. Asked which national sporting figures were best suited to sell World Cup merchandising, Belgians voted overwhelmingly for Sabine Appelmans, the tennis player.

Last year Mexico looked capable of causing minor shocks in France. No longer. One should never read too much into friendly matches but when a country loses 5-1 to a Chilean club side it is hard not to and Mexico's nickname, *Tri* for the tricolour flag, has been changed to *Tritanic*. Yet Manuel Lapuente, Mexico's coach, insists: "Everything is going to plan."

When Korea qualified for the World Cup, their manager, Bum Kun Cha, was voted the country's Man of the Year. Some mooted him as a possible president, to sort out the economic crisis. But, as with Mexico, it has been mainly downhill of late. Cha admits: "I fear we will be worse than at the last World Cup. I have to teach my players the simplest things." Any deterioration would be grim news, given that Korea have not won a match in the last four World Cups. Cha says: "One day South Korea will win the World Cup. Not this summer, not in 2002, but maybe in 50 years."

Simon Kuper

GROUP F

Germany Iran US Yugoslavia

When Iran secured the final place at France 98 with a last-gasp goal in the final play-off, football law dictated that they be drawn with the US. And so it came to pass.

The clash is likely to be of greater cultural than footballing interest, as neither team will challenge Germany and Yugoslavia in Group F.

Germany's World Cup pedigree is second only to Brazil but it is questionable whether the current squad can live up to it. A midfield with Möller and Hassler is up to par but coach Bertie Vogts has problems fore and aft. Up front, Jurgen Klinsmann is clinging on courtesy of a talismanic performance in Euro 96 and a lack of convincing alternatives. Oliver Bierhoff's high-scoring year in Serie A has secured him a move to Milan but it has not entirely convinced Vogts, who has often seemed to prefer Ulf Kirsten.

At the back, concerns are embodied in the creaking form of sweeper Lothar Matthäus, 37-year-old former skipper and principal trouble-maker, restored to the squad in what smacks of desperation at the loss of the star of Euro 96, Matthias Sammer.

The experienced spine of the team should assure qualification to the second phase, though whether its legs can take it much further is another question.

Yugoslavia have appeared eight times in the finals but this is the first team to represent the post-break-up rump of Serbia and Montenegro.

The width may be reduced but the quality remains, notably in Predrag Mijatovic, scorer of Real Madrid's winner in the European Cup Final, Dejan Savicevic and Dragan Stojkovic.

This attack humiliated Hungary 7-1, in Budapest, and a record of 41 goals for and eight against in 12 qualifying games, suggests the Federal Republic of Yugoslavia could make quite an impact in its first World Cup.

France 98 is the US's third consecutive appearance in the finals. A recent victory over Brazil suggests they will be no pushover but, as on that day, the Americans will have to hit top form while their opponents falter if they are to progress to the last 16.

Having performed well in its first World Cup in 1978, particularly in drawing with Scotland, Iranian football was cast into the wilderness following the revolution in 1980.

In a decade of turmoil, football took a low priority but the 1990s have given Iran's passionate fans something to shout about. Not least the dramatic qualification for France, clinched on away goals, in Australia with a last-minute winner.

Matthew Pettipher

GROUP G

Romania England Colombia Tunisia

When Eric Cantona was asked which player he would remember from USA 94 he ignored Romario and Baggio in favour of Andres Escobar.

Escobar conceded an own-goal to the US as Colombia, hotly tipped before the finals, left the US without a win and early. For Escobar, it was – literally – the beginning of the end. Shortly after his return, he was killed by a gunman who screamed "Goal!" with each bullet.

Outrage at the murder has changed little in Colombia. The present squad travels to France complete with death threats, directed at forward Victor Aristizabal, and less cause for optimism than four years ago.

Hopes rest on veteran captain Carlos Valderrama – now more famous for his mop of hair than his dribbling – and striker Faustino Asprilla, but the feeling remains that the side missed their chance for glory last time round.

The sentiment applies also to Romania, who are contesting their third consecutive finals with a team still built around one great star – Gheorghe Hagi.

France 98 will be Hagi's international swansong and, with established cohorts Gabriel Popescu and Dan Petrescu alongside, the Romanians will expect to have a voice in the later stages. They lack youth but, with nine qualifying victories against one defeat, they do not lack quality and it is to be hoped that the finals provide a fitting finale to Hagi's career.

However brief his stay, there is a good chance that Hagi will display in his left boot more class than England can muster in their entire squad. Which is not to say that the English will not do well.

The great weakness of the team lies in midfield, which lacks creativity or, even, the ability to hold on to the ball. Against this, England have a solid defence and an attack whose potency is envied by more cultured teams. What, for example, would the French or Spanish give to have English captain Alan Shearer on the end of all that approach work?

Until recently, hope was vested in the skipper and the excluded Paul Gascoigne. Then there came Michael Owen, an 18-year-old Billy the Whizz of a footballer who knows no fear and whose ebullience simultaneously lifts his team-mates and demoralises opponents.

Owen scored his first senior goal in the warm-up game against Morocco. If the rest of the England team are as pedestrian in the opener against Tunisia as they were in that game, he will be called upon again.

Tunisia are making their second appearance in the finals. In the first, 20 years ago, they drew with defending champions West Germany. Although similar success in any of the group matches would not be quite such a shock, it would not be far off.

Matthew Pettipher

GROUP H

Argentina Croatia Jamaica Japan

Perhaps every international team should be selected on the grounds of follicular rather than footballing highlights. Since Argentine coach Daniel Passarella adopted his hard line on long hair, his side have shaken off a disappointing start to qualifying and built an impressive momentum into the tournament itself.

The World Cup winning captain in 1978, Passarella presented a famously hard line as a player and his stance as coach has claimed its victims, notably Redondo of Real Madrid.

But it has also had its successes, one of whom is leading the charge into France. Even after Gabriel Batistuta cut his locks he remained out of favour but Passarella has brought him back into the fold. Batti-goal looks a good bet for the Golden Boot. It will help if the new wonder-boy of Argentinian football, Ariel Ortega, lives up to his billing. Saddled with the title of the new Maradona, Ortega has the ability, and temperament, to emerge as one of the stars of the finals.

Argentina have the look of a side timing their run to the World Cup perfectly and they will provide a daunting test for their fellow group members, all of whom are World Cup debutants.

Individually, Croatia have the greatest international experience. Croatians always provided a healthy contingent in Yugoslavian teams and their development since independence in 1991 was evident in Euro 96. But the tournament also suggested their weakness. Having taken control, and the lead, against Germany in the quarter-finals, the Croatians lost all discipline, their centre-back and the match.

Nevertheless, with a high-class backbone of Igor Stimac, Slaven Bilic, Zvonimir Boban and Davor Suker, they should progress to the second stage.

Jamaica have been cast as the festival team of the festival of football. The "Reggae Boyz" are cashing in on the hype suggesting that the Jamaicans will challenge the World Cup's traditional party nation – Brazil. With a large number of British-based professionals they will be no walk-over, but the challenge to Brazil is likely to remain off the pitch.

Japan's was a tortuous route to the World Cup but the play-off victory against Iran was priceless, as a means of maintaining the momentum to 2002, when Japan co-hosts the finals.

The team's approach to France 98 is evident in the concentration on their man-marking system, and coach Takeshi Okada is under fire for leaving star striker Kazuyoshi Miura at home. They will do well to hold the likes of Ortega and Suker down.

Matthew Pettipher

FRANCE 98 PLAY TO BEGIN AT LAST AS THE FIRST OF THE 32 FINALISTS TAKE THE STAGE

When earth becomes planet football

Patrick Harverson on why this World Cup will be a truly global event in terms of size and as a collective experience for fans

Today, the waiting is over. Almost eight months after the qualifying rounds ended, 24 weeks after the draw was held in Marseilles, and nine days after the coaches unveiled their 22-man playing squads, the 1998 World Cup finally gets under way in France this afternoon with the opening game between Brazil, the champions, and Scotland, the rank outsiders.

The build-up to the tournament has been long, probably too long for all but the most diehard of football fans. There have been too many meaningless friendlies, an excess of media dramas and a surplus of scandals, and far too much hype. It may be difficult for France 98 to live up to expectations raised by anticipation to giddy heights.

The World Cup certainly looks impressive on paper. Its sheer size ensures that. It will feature a record 64 matches, 32 teams, 704 players, 2.5m spectators and forecast cumulative television audience of 37bn viewers worldwide. That last figure – even if unverifiable – is vital to understanding a large part of the tournament's appeal: *la Coupe du Monde, A Copa Do Mundo, La Mundial*, the World Cup – it is sport's defining global event. For one month every four years, planet earth becomes planet football.

France 98 will be the most global World Cup yet, and not just because it is being contested on an unprecedented scale. To the millions of spectators and billions of viewers, the event will be a truly collective experience. They will watch it with a shared appreciation of the players' capabilities and the teams' tactics, their strengths and weaknesses.

The men who run Fifa, the sport's governing body, like to talk of how the game's fans worldwide make up the football family. Yet the sport's most intimate family members are the players of the World Cup, many of whom are so familiar to fans across the globe that they are more like relatives than distant sporting icons.

When Romario was left out of the Brazil squad a nation wept with him – and millions of others outside his country grieved too. In the coming weeks, when Marcelo Salas scores for Chile in the first round (as he assuredly will), Chileans will dance in delight; fans of his last (Argentinian) club will shout in joy, supporters of his next (Italian) club will beam with pride, while followers of the English club that coveted his talents will look on in admiration and exasperation.

If the familiarity of so many of the combatants heightens the communal experience of this World Cup, it may also dull its capacity to delight and surprise.

That champion feeling: Brazilian players hold the trophy aloft after the final of USA 94 — Allsport

In tournaments past, the teams arrived in the host country as largely unknown, sometimes exotic, entities. They brought with them different footballing styles and players of exciting rawness and untapped potential. Today, with so many top stars playing in the same elite European club leagues, and many national managers adopting a similar tactical approach to the world game, planet football has become homogenised.

The tactical similarities of this World Cup may prove particularly pronounced. Aside from a few subtle variations, modern coaches like to employ three or four mobile, ball-playing defenders, augmented by two energetic wing-backs and a solid, hard-tackling midfield serving a brace of strikers.

Tostao, a member of the superlative Brazilian side that won the 1970 Cup, laments: "Today, with the globalisation of things, you can play in the same way in the countryside here in Minas Gerais [Brazil] or in Japan."

The fear is that the employment of identical strategies will produce too many stalemates, and unexciting games played out by football clones. Yet, it would be unnecessarily pessimistic to predict that France 98 will be a repeat of the unedifying fare served up in Italia 90, when defences dominated and caution was the watchword. There are enough pulse-quickening talents (such as Ronaldo, Ortega, Zidane, Shearer, Del Piero, Roberto Carlos) to maintain the improvements seen in the US four years ago, while Fifa's toughening of the rules against foul play should ensure their protection against the darker forces that can sometimes dominate.

Yet the World Cup is not just about the players, the teams and their tactics. It is also about the fans, whose passion for football sustains the game through every quadrennial tournament. If they have been able to get tickets to see their teams, and if they behave, the fans will play as important a part in making the tournament a success as the stars whose every tackle, pass and dribble they will follow with great fervour. Yesterday, the boulevards of Paris were already echoing to the songs of canary-coloured Brazillians and the serenades of kilted Scotsmen, a cheerful foretaste of what is to come.

Which brings us back to Saint-Denis, north of Paris, and today's opening match at the Stade de France. It would be nice if Scotland could strike a blow against football's homogeneity and take on Brazil with an adventurous, attacking formation, and perhaps even win. Unfortunately, in the World Cup the dreaming is left to fans. The coaches and players must face up to reality, starting today.

BRAZIL V SCOTLAND THE OPENING MATCH

The Tartan march from Tallinn to Paris

Scotland fan **Tom Lynch** on the high and low roads of his team's progress to France

Tonight's trip to the Stade de France in Paris will be less picturesque than the journey to the Kadriorg Stadium, but Scotland's Tartan Army will at least see some action at the end of it.

It does not feel like 17 months since about 400 Scots – more a Tartan platoon than an army – walked or took the tram to a pretty football ground, set among golden autumnal woods, on the edge of Tallinn, Estonia's capital.

A peaceful setting, and all the more peaceful for the lack of Estonian fans – or indeed of an Estonian football team. After some overnight dithering by the referee, Fifa had ordered the World Cup qualifying game to be played in the afternoon rather than the evening because of the poor floodlighting.

The Estonians said they had not had enough notice and stayed in their training camp 60 miles up the road. "There's only one team in Tallinn," sang the tartan terraces as the referee lined the Scottish team up and, bizarrely, a linesman inspected the goalposts at the Estonian end. The Scots kicked off, the referee blew his whistle and awarded the game to Scotland.

The row that started there stirred bitter words among Europe's football bigwigs. But the frustrated 400 became the favoured 400 – the Scottish Football Association allowed those who had made the pilgrimage to buy tickets for any or all of Scotland's first-round matches.

Fifa quickly changed its mind about awarding the game to Scotland and ordered a replay. The committee that made that decision was chaired by Lennart Johansson, the Swedish Uefa president and unsuccessful candidate in Monday's Fifa presidential election – even though Sweden were in the same group as Scotland and Estonia.

Justice was done when Scotland beat a superior Swedish team 1-0 at Ibrox. But there were still some bumps in the road to France.

A limp performance in the replay of the Estonia game, held in Monaco, resulted in a 0-0 draw. Then the home game with Belarus was scheduled for September 6 last year, the day of the funeral of Diana, Princess of Wales. There was more high-profile dithering as the powers-that-be first said the game should go ahead, then bowed to public pressure and postponed the tie to the following day.

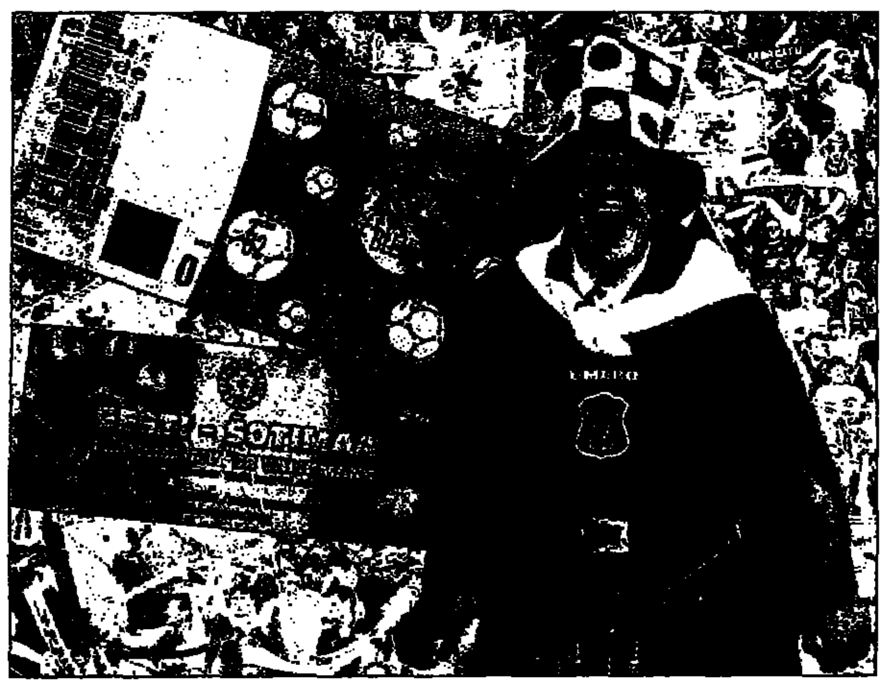
Scotland went through to France as the best runners-up in the European groups, largely thanks to that win against Sweden and taking four points off group winners Austria.

The wait for tickets for France seemed endless. The SFA invited applications, then was not able to tell supplicants whether they were successful as it and other national football bodies tried to prise tickets out of the French organisers. Then in April the SFA revealed how it had allocated its supply of tickets. Fans who had been to three or more away games were entitled to apply for all three first-round games – as was everyone who went to Tallinn.

And so to Paris tonight. Drawing Brazil again is bad luck – though there are dim memories of 1974 when we thrashed them 0-0 – and no one is betting their house on Scotland getting past the preliminary stage of the finals for the first time.

Scots are tired of the old joke about its fans getting home from World Cups before their postcards, and the Tartan Army would love to occupy France for a bit longer than usual. Yesterday Tartan Army members were out recruiting in Paris bars. Any non-Brazilian was regarded as a potential foot-soldier and was being taught to sing *Flower of Scotland*.

But if it all goes wrong, there are the European championship qualifiers to look forward to. The Tartan Army is off to the Czech Republic, Bosnia, Lithuania, the Faroe Islands and, yes, Estonia. They've got until September 8 1999 to get the floodlighting right.



Animal runs wild again

Brazilians love to give their footballers nicknames; and with "The Phenomenon", otherwise known as Ronaldo, leading their attack in this afternoon's World Cup opening game against Scotland, there would seem to be little to concern their coach Mario Zagallo.

Yet since the surprise omission through injury of Romario, Ronaldo's partner in attack, from Zagallo's squad, there has been the odd sign of disharmony in the camp.

Zagallo has to choose between Bebeto – whose nickname roughly translates as "Cry-baby" – and "The Animal" (Edmundo) to replace Romario. It has not been made easy for him.

The experience of 34-year-old Bebeto, who starred in Brazil's World Cup winning side in 1994, has won over the mercurial talents of Edmundo in the expected starting line-up. But The Animal does not take kindly to being excluded. After Brazil's friendly warm-up game against Atletico Bilbao, Edmundo stormed into the dressing room complaining that no one would pass the ball to him, and elbowed his team-mate Leonardo.

Since then, he has told the Brazilian media that he considers himself superior to Bebeto, and that he should be partnering Ronaldo in today's game. Then in a training game at the weekend, he flicked a petulant kick at midfielder Giovanni and needed to be calmed by the team's captain Dunga.

Bebeto has remained calm in the face of his rival's provocations, while Ronaldo himself appears relaxed, speaking enthusiastically of his new talisman – an ear-ring bearing the colours of the Brazilian flag – sent to him by a supporter.

One reason Zagallo prefers Bebeto is for his work rate, an indication of the coach's pragmatism. The presence of the veteran Dunga, 34, is another; although in truth, no one else in the squad has the inspirational qualities to pull this potentially outstanding side together. They should be too strong for Scotland – but watch the bench for the man whose nickname alone threatens to disturb the peace.

Peter Aspden

FRANCE 98 DIGEST

BETTING

Gambling against tradition gains London's best odds

Soccer-wise, all eyes are on France. But in the betting world, international attention is focused on the World Cup odds quoted in London. Not only are the British bookmaking firms part of the most accessible and extensive legal gambling market in the world, but the soccer-mad British are famously fond of a bet. There are ready-made odds, on any number of outcomes, that everyone can tap. This is an unusually tricky World Cup for bettors. Two big questions are posed: 1. What difference will the extra knock-out round make now that the finals have been enlarged from 24 to 32 nations? 2. Are tradition and experience still all-important, or are standards among the world's top teams becoming more uniform?

Traditionalists believe the winner will come from this clique: Brazil (best London odds: 3-1), France (6-1), Italy (7-1), Germany (8-1) and Argentina (9-1). If you are a traditionalist, look no further than those five. Do not even contemplate teams such as England (only 8-1 in London, reflecting strength of local support), Holland (10-1) or Spain (14-1), let alone the rank outsiders.

However, contra-bettors – those who studiously ignore the received wisdom – want more than that out of life. Fearful and unconventional, they like backing outsiders, and want to believe in some notable upsets in France. By betting at longer odds, they stand to win more, but by definition they are likely to win less often. The contra-bettor is repelled by Brazil's odds, attracted by Argentina's, and necessarily foresees a rupture in World Cup hegemony.

During the World Cup, the FT will be playing the contrarian game, using a £1,000 pot and tracking the result. That means backing Norway initially, as well as Argentina. There is a long way to go. Every bettor needs a strategy. The FT's will involve follow-up bets – possibly white-knuckle ones – which have yet to be determined.

Bets so far. *World Cup winner*: £80 Argentina, 9-1; £30 Norway, 33-1. *Golden Boot (top individual scorer)*: £15 Batistuta (above) of Argentina, 8-1; £15 Mijatovic of Yugoslavia 20-1. *Team scoring most goals*: £20 Yugoslavia, 5-1. *Team conceding most goals*: £40 Iran, 11-4. Total stakes so far: £200.

Michael Thompson-Noel

SECURITY

Police take low-key stance

French police were yesterday resolutely championing a low-key approach to World Cup security, as boisterous Scottish fans arrived in Paris for today's opening match against world champions Brazil. "We are trying to protect the image of conviviality," said René-Georges Querry, the inspector general of police in charge of security at the tournament. "Our logic is to welcome all supporters with open arms if they come to respect the festival."

Querry confirmed there would be no uniformed police inside the 10 World Cup stadiums, unless there was a specific problem. In the case of the Stade de France, where today's opening match, and later the final, will take place, about 1,200 police officers would be nearby. In all, he said, 6,000 to 7,000 police and military personnel would be on the streets on any given day. There are also about 180 foreign police officers, including 15 from England and about the same number from Germany. **David Owen**

● Alessandro Del Piero and Moreno Torricelli are both out of Italy's opening game against Chile tomorrow, because of injury, but are expected to be fit in time for next week's match against Cameroon. Nigeria's woes were compounded, following the death of head of state Sani Abacha, as attacker Daniel Amokachi joined the injury list and defender Jaro Shakpoke was ruled out of the tournament by a broken collarbone.

● British economists have been calculating the effects of the World Cup in the UK. One in five workers is planning to take time off to watch World Cup matches, according to a survey by the UK Institute for Personnel and Development. The Centre for Economics and Business Research warns that retail sales will be dampened if England go through to the quarter-finals and beyond. But yet another survey, by the Economist Intelligence Unit, expects the tournament's biggest impact to be felt in Brazil, followed by France and Germany.

TODAY'S GAMES

● **BRAZIL V SCOTLAND, 17.30*, SAINT-DENIS.** The first game, usually a nerve-wracking affair that gets the better of players, follows the lavish opening ceremony.

● **MOROCCO V NORWAY, 21.00, MONTPELLIER.** With Brazil expected to win the group, this game could be decisive in the race for second place.

*Times are French time (GMT plus 2 hours).

For latest World Cup news
www.FT.com/worldcup98

CITY OF LONDON BILL FOR COMPLIANCE WITH NEW STRUCTURES COULD TOTAL $650m

VAT concession for businesses faces curb

By Jim Kelly, Accountancy Correspondent

The City of London could face a £400m ($656m) tax bill and heavy compliance costs under proposals yesterday from Customs & Excise which were attacked by tax experts and companies.

The figures are the latest estimate from Customs, which wants to restrict a crucial tax break enjoyed by many big financial services groups, especially banks, insurance companies and others in the medical, property and education sectors.

A consultation document published yesterday and heralded in the national Budget measures announced in March proposes restricting so-called "VAT grouping" to fully taxable companies – excluding those involving companies which are exempt from VAT.

Edward Troup, head of tax strategy at Simmons & Simmons and a former Treasury expert said: "This is a disgrace. They do not even try and estimate the benefits for business. This is aimed at the City. They want to raise money but they know complete abolition would cause a storm."

VAT groups were designed to cut costs by allowing several companies to pay tax as if they were one business, ignoring transactions within the group for tax purposes.

VAT groups also enable exempt businesses – such as banks and insurance companies – to avoid paying VAT within the group which they would not be able to reclaim.

The Inland Revenue said VAT groups were being exploited to reduce tax and that there was a loss of revenue to the exchequer from exempt companies. It added that it was putting forward the proposal for consultation partly to discover what the costs to industry would be before deciding whether to press ahead.

But Penny Hamilton, indirect taxes partner at Coopers & Lybrand, said the Revenue appeared to have made up its mind. "The document concentrates on how – not whether or why," she said. "It is disturbing that there are no VAT compliance costs in this document."

Colin Miles, head of indirect tax at BP and head of the indirect taxes sub-committee of the Confederation of British Industry, the employers' lobby, said the proposal showed the tax authorities viewed normal tax planning and business efficiency as tax avoidance.

Tax experts said that the proposal would hit hard companies that had set up separate service, treasury, or staff companies within a VAT group and might now have to restructure to avoid extra taxation. Some companies might relocate departments outside the UK as a result.

"This proposal will force financial institutions to restructure, dramatically increase red tape and in some cases generate VAT costs where there really should not be any," said Andrew Burns, VAT partner at Deloitte & Touche.

Consultation on the document runs until 30 September.

Dispute over costs of extra access for disabled people

The government announced yesterday that all organisations which provide a service to the public must make "reasonable adjustments" to allow full access to Britain's 6.2m disabled people, **Simon Buckby writes.**

Ruth Lea, head of policy at the Institute of Directors, said: "We will work to implement this with the best will in the world, but fear that it will inevitably add to business costs." But the Royal National Institute for the Blind insisted: "It's very hard to put a figure on it, but the costs are likely to be much less than expected."

By 2004, businesses must have removed physical barriers restricting access to services.

"Businesses based in inaccessible premises will have to take reasonable steps to provide their service by alternative means," said Alan Howarth, minister for equal opportunities.

By October next year, they must have taken reasonable steps to change practices, policies or procedures.

Mutuality is put to the test as members vote on conversion

Christopher Brown-Humes looks at a movement that has endured for 200 years but now faces questions over its relevance

Nationwide, the UK's biggest remaining building society, will hold the most important vote in its 150-year history next month when members will be asked to decide whether it should become a bank.

Building societies – and life assurers – owned by their members and policyholders are part of a British tradition stretching back more than 200 years. For many years they were the main providers of loans to homebuyers.

But the relevance of mutuality is being challenged.

Over the past two years, there has been an unprecedented wave of conversions by mutuals, which become banks listed on the stock market and owned by shareholders. The societies that are left claim to provide a better service than the banks.

The government has given clear signals about the important role mutuals might play in its reforms – particularly in pension provision – as the state moves its emphasis from welfare to self-care.

Frank Field, the social security minister, has even suggested that mutuals could play a leading role in the overhaul.

This would give them a similar role to the one occupied by friendly societies – mutual groups which provided everything from pensions, sickness benefits and life assurance – before the modern welfare state was established.

No one doubts that mutuals have played a crucial role over the past two centuries.

The first life assurer, Equitable Life, was formed in 1762 and is still going strong.

The government has given clear signals about the important role mutuals might play in its reforms

The first building society was set up by Richard Ketley at the Golden Cross Inn in Birmingham, in the English Midlands, in 1775.

Building societies really did build houses in those days.

They were formed by small groups of craftsmen and other white-collar workers who saved regularly to build up a fund that was used to buy land and then put up homes. As each one was completed the group held a ballot to decide which member should occupy it. They gradually evolved into permanent organisations rather than winding up when everybody in the group had been housed.

But as recently as two years ago, mutuals were being accused of losing sight of their co-operative roots and of being more interested in profit than customer service. They were seen as being rapacious and unsympathetic, like banks.

They have made a determined effort to cast themselves in a more positive light and to justify their continued existence. In particular, a fierce battle is raging in the mortgage and savings sector between societies and the former mutuals.

Adrian Coles, director-general of the Building Societies' Association, says mutuals are winning market share and showing they are better for customers because of their lower margins. He says this is possible because societies do not have shareholders to whom they must pay dividends.

But the evidence on the savings side is much more patchy and Moneyfacts, the data provider, has accused building societies of failing to offer the best rates.

Independent surveys have provided evidence that customers are better off with a mutual life office than a company. The Personal Investment Authority compared pensions this year and said mutuals were projecting maturity values 4.4 per cent higher than proprietary groups.

This also supports the view – other things being equal – that mutuals *should* offer their customers a better deal simply because they do not have to pay dividends.

But surveys show that the picture is not simple. Kate Hoey, junior minister in the social security department, says: "Mutuality does not of itself guarantee better returns and service than other forms of ownership. There are very good joint stock companies and less good mutuals, and vice versa."

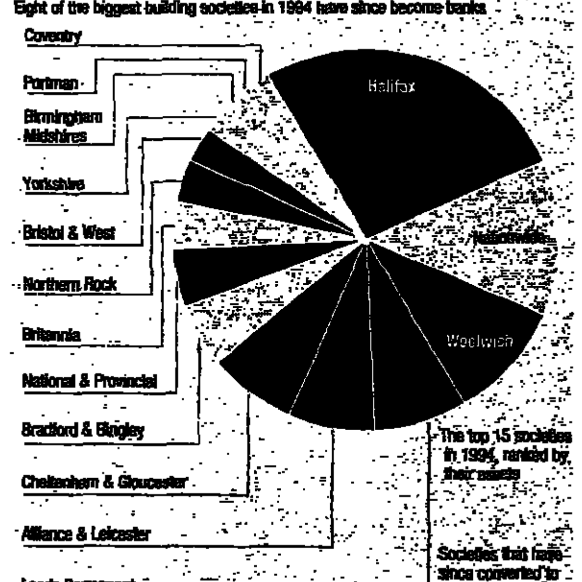
Do mutuals treat their customers any better than companies, anyway? Evidence from the £11bn ($18bn) personal pensions mis-selling scandal suggests not. Sun Life of Canada and Friends Provident, both mutuals, have received two of the biggest fines.

But media and political sentiment has shifted sharply in favour of mutuals in the past year. They are seen increasingly as an important competitive force in the market. Nationwide defeated comfortably an attempt to force it to convert to a bank last year.

It is expected to triumph again.

A shrinking sector

Eight of the biggest building societies in 1994 have since become banks



Source: Building Societies Association 1994 data

P&G to invest $164m in extra factory

By Sheila Jones in Manchester

Procter & Gamble, the US consumer products group, is to invest £100m ($164m) in a new tissues and towels factory in the northern England city of Manchester. The move shows that it is ready to enter the UK soft tissue market for the first time.

The company dominates in the UK's competitive disposable paper products market, worth about £2bn a year, including feminine hygiene products and nappies. However, P&G has yet to enter the UK market in toilet and kitchen tissues, led by Kimberly-Clark of the US, which makes Andrex, and SCA of Sweden, which produces Kleenex tissues.

Procter & Gamble already employs 1,000 people at factories in Manchester, making soaps and nappies including its leading brands, Fairy Liquid, Ariel washing powder and Pampers. It employs more than 5,000 in other parts of the UK, including north-east England.

P&G already sells toilet tissue in the US and in Germany and launched its Bounty kitchen paper in Germany, Austria and Switzerland a year ago.

The company had been expected to launch soft-tissue products in the UK as part of a European expansion, although the UK market is harder to enter because of the dominance of own-label brands sold by the big supermarkets.

It is likely P&G will want to strike sooner rather than later, given Kimberly-Clark's difficulties in the European market which have prompted two restructurings in recent years including thousands of job cuts. While the UK soft-tissues market is buoyant, particularly in kitchen towels, the supermarket brands have undermined the positioning of producer labels.

The new factory is backed by a £7m aid package, comprising £3m government funding, £3m from English Partnerships, the regeneration agency, and £1m from Manchester's Training and Enterprise Council.

● H & W Systems, a machine tool accessories manufacturer based in Kings Mountain, North Carolina, is to open its first factory in the UK. The 4,050 sq m factory in the Dearne Valley enterprise zone in northern England will be backed by a £500,000 ($820,000) UK government grant.

Meanwhile, Sara Lee Bakeries, the foods division of Chicago-based Sara Lee, said it was moving its UK commercial operations to new offices in the northern England city of York. About 100 sales and marketing staff would transfer from other UK offices and jobs would be created. The company employs about 1,800 people in northern England.

AIR TRAFFIC CONTROL FURIOUS STAFF FEAR THAT DRIVE FOR PROFIT WILL LEAD TO CUTS

Private cash proposal may be revived

By Michael Skapinker and George Parker in London

Sir Malcolm Field, chairman of the Civil Aviation Authority, which owns National Air Traffic Services, said yesterday he believed the government was now serious about introducing private sector investment into UK air traffic control.

Until this week, the CAA and Nats believed the government had buried the idea of privatisation. But Sir Malcolm said: "I'm pleased this has come back as an issue."

It is understood that John Prescott, deputy prime minister and chief transport minister, reached an agreement in principle last week with Gordon Brown, chancellor of the exchequer, to introduce greater private sector involvement in Nats.

Air traffic controllers reacted with fury. "A privately owned Nats would be driven by the need to make a profit and staffing levels would be cut, putting even more pressure on overworked controllers," said Joe Magee, aviation officer at the IPMS union, which represents most controllers.

The CAA rejects the argument that privatisation would compromise safety. Although it says the UK's skies are safe, it argues that the institutional relationship between the CAA and Nats is unhealthy. The CAA is responsible for regulating and supervising Nats, but it also owns it. The best way to ensure aviation safety, the CAA says, is for the organisations to be separated.

Full privatisation is unlikely. The government has several options:

● The sale of a stake to private investors. If private investors took 49 per cent, leaving the government-owned CAA in majority control, Nats' borrowings would still form part of the public sector borrowing requirement. The CAA would prefer to see the private investors take 51 per cent.

● "Corporatisation". This would mean that Nats would remain government-controlled but would be given the right to borrow privately. New Zealand, Germany and the Netherlands have gone down this route.

● The "Canadian solution". In 1996, Canada's air traffic control was turned into a not-for-profit corporation run by representatives of the government, airlines and trade unions. The corporation can borrow privately.

Many airlines favour the Canadian solution for the UK. They argue that air traffic control is a monopoly service and they do not want to have to pay more to fund dividends to private shareholders. The CAA says it does not provide sufficient incentives.

See Lex in Companies & Finance: UK

NORTHERN IRELAND POLICE CALLED IN AFTER DOCUMENT REVEALS RIFT BETWEEN GOVERNMENTS

Ministers fear officials' role in leaks

By Jimmy Burns in Belfast

Leaks of politically sensitive documents from the UK government's Northern Ireland Office have fuelled ministers' concern that local officials may be conspiring to disrupt the peace process.

Police have been asked by the Northern Ireland Office to investigate following the latest leak which revealed an embarrassing rift between the British and Irish governments over the composition of the police reform commission for the north.

"Leaks are damaging to good government and every effort will be made to discover who leaked this document," the office said yesterday.

The latest document to be leaked is a confidential three-page memorandum written by a Northern Ireland Office official working as private secretary to Mo Mowlam, chief minister for Northern Ireland in the UK government. The memo details exchanges – involving Dublin, the White House, the moderate nationalist Social Democratic and Labour party, and Sinn Féin, the political wing of the Irish Republican Army – in the run up to the announcement of the commission by the Northern Ireland Office last Wednesday. The memo was leaked to Jeffrey Donaldson, an MP in the pro-British Ulster Unionist party who campaigned for a vote against the peace agreement in last month's referendum.

It makes clear that the Irish government was angry about the lack of consultation over the commission and the absence from the shortlist of names it had proposed in consultation with US officials, the SDLP and Sinn Féin.

An Irish government official indicated yesterday that in his view a line had been drawn over the police commission controversy.

David Andrews, Irish foreign minister, earlier said those who had leaked the document were "sneaky people" determined to undermine the Anglo-Irish co-operation which led to the peace settlement and underpins the peace process.

Gerry Adams, Sinn Féin president, said the person or persons behind the leak should be dismissed. "The bureaucrats who have run the place don't want to give up their hold and don't want to see nationalists having our entitlement and don't want to see equality," he said.

NEWS DIGEST

BRITISH TELECOMMUNICATIONS

Internet access service to be subscription-free

British Telecommunications is to offer its customers a simple, subscription-free, pay-as-you-go internet service which will cost 1 penny a minute over standard call rates. Personal computer owners with a modem communications device and the "dial-up" software embeded in Windows 95 will simply be able to dial into a BT site to gain access to the internet. They will be charged for the service as part of their ordinary telephone bill and calls to the internet access number will qualify for BT's discount schemes. The new service, believed to be the first of its kind, is aimed at the estimated 1.5m or 2m people in Britain who have internet-capable personal computers, but who have not signed up with an internet service provider.

"This is an idea whose time has come," said John Swingewood, director of BT's Internet and Multimedia services. BT, which also runs its own monthly subscription internet service, BT Internet, said it does not see the new pay-as-you go service as a challenge to independent internet service providers. It added that Oftel, the telecommunications watchdog, had been notified of its plans. **Paul Taylor, London**

PERSONAL INVESTMENT

Complaints increase by 54%

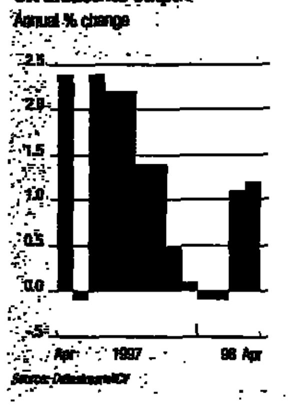
The number of complaints to the Personal Investment Authority ombudsman increased by 54 per cent last year. Tony Holland, the ombudsman, yesterday attacked financial services providers for shrouding their products in a "veil of impenetrable language". He said: "Time and again it is clear that one of the main reasons for the dispute in the first place is that the claimant did not understand exactly what had been purchased. This may have been because the explanations given were unsatisfactory or even worse, misleading, or . . . the explanations given were not understood, let alone remembered." Complaints to the ombudsman's bureau rose from 4,310 to 6,669 in the year to March 31. The number of cases dealt with increased by 72 per cent to 5,800 after the bureau took on more staff to cope with a mounting backlog. Compensation paid to complainants climbed from £4.3m to £6m ($9.8m). Payouts varied from £402,000 to £25, with an average of £4,630. The bureau found in favour of the complainant in 41 per cent of cases. **Christopher Brown-Humes, London**

THE ECONOMY

Factories step up production

UK industrial output

Annual % change



Source: Datastream/ICV

Britain's manufacturers stepped up production for the third successive month in April, but recent survey evidence suggests that the strong pound will soon force them to retrench. Factory output rose by 0.1 per cent in April, the Office for National Statistics said yesterday. But output was lower than in the same month a year ago, with the underlying trend flat. Revisions to data for the previous three months confirmed that the factory sector was in technical recession around the turn of the year, with output falling for two successive quarters. But the second quarter has begun with output above its average level for the first.

Looking at the three months to April, output fell in fuels, metal and food, drink and tobacco. There was modest growth in chemicals and "other manufacturing", with only engineering growing strongly. The factory output data were slightly stronger than City economists had predicted, but the broader measure of industrial production exceeded expectations to a much greater degree. Industrial production, which accounts for 28 per cent of whole economy output, rose by 1 per cent in April. **Robert Chote, London**

FUEL TAX PROTEST

Police to prosecute drivers

Police said yesterday they would prosecute 14 truck drivers who took part on Monday in a "go slow" convoy of truckers protesting at what they claimed was a higher level of duty imposed on diesel fuel in the UK than in the rest of the European Union. More than 60 trucks drove at speeds as low as 25kph along the M25 London orbital motorway.

SALES OF NEW TRUCKS

UK truck registrations: May 1998

	May 1998			May 1997	Jan-May 1998			Jan-May 1997
	Volume	% chg	% share	% share	Volume	% chg	% share	% share
Total	4,347	22.7	100.0	100.0	21,090	25.0	100.0	100.0
Imports	3,097	38.9	71.2	71.2	14,654	42.3	69.5	67.6
Leyland Daf (Paccar*)	823	18.4	18.9	18.9	4,230	16.2	20.1	21.1
Iveco Group** (Fiat)	859	7.1	19.8	19.8	4,040	17.0	19.2	20.5
Mercedes-Benz (Daimler Benz)	773	47.8	17.8	17.8	3,372	32.4	16.0	15.1
Volvo	564	38.2	13.0	13.0	2,574	25.5	12.2	12.2
Scania (Investor)	352	-22.1	8.1	8.1	2,308	20.1	10.9	11.4
MAN	359	37.5	8.3	8.3	1,758	47.1	8.3	7.1
ERF	239	71.9	5.5	5.5	1,172	38.0	5.6	5.0
Renault	198	40.1	4.6	4.6	867	45.0	4.1	3.5

Names in brackets indicate ownership * Paccar also owns Foden ** Includes Iveco, Ford and Seddon Atkinson

Sources: Society of Motor Manufacturers and Traders; Industry

Registrations jump 22% in year

A buoyant economy is continuing to push the UK market for new trucks beyond industry expectations, with the latest rise in interest rates predicted to have little effect in damping demand. Statistics from the Society of Motor Manufacturers and Traders show that registrations of new trucks – vehicles over 3.5 tonnes – increased by 22 per cent, year on year, in May. That lifted the total for the first five months of 1998 to 21,090, up 25 per cent on the same period of 1997. Paccar of the US, through its Foden subsidiary and the recently purchased Leyland Trucks, appears to be establishing a clear lead over rival Iveco-Ford, controlled by Fiat, for the UK truck market leadership. Paccar's registrations for the first five months of the year totalled 4,525, compared with 4,040 for Iveco Ford. **John Griffiths, London**

Downtown moves centre stage

Pierre Ruhe on the opening of the Bass Performance Hall as part of an exciting new development in Fort Worth, Texas

There were some surprises at the opening celebrations of the new Bass Performance Hall in Fort Worth, Texas. During the final movement of Rachmaninov's Second Concerto, the pianist Van Cliburn – Fort Worth's most famous son – fainted, falling heavily to the floor, later reported as a case of exhaustion agitated by the sooty air passing over Texas, blown north from Mexican forest fires.

The recently opened hall, however, is the latest in a happy trend. It may signal the end of the era of acoustically poor, "industrial" looking, multi-purpose concert halls which largely ignored the needs of audiences and performers alike. Acousticians are now routinely part of design teams, and the user-friendly fundamentals of space, size and shape are no longer ignored in pursuit of a questionable post-war modernist agenda.

The Bass Hall architect, David M. Schwarz, designed a purposely old-fashioned, neo-Beaux Arts building in keeping with the billionaire Bass family's scheme for renovating downtown Fort Worth, once a bustling railroad and cattle-drive town. Packed within a few square blocks adjacent to Bass Hall are shops, saloons, restaurants and theatres. Although appearing old, a great many of them have just recently been built, and comprise a survey of the last century in architecture: there is Art Deco, Art Nouveau, and 1920s Moderne, including several Old West-style store-fronts. Ringed around the square's perimeter are glass and concrete high rises.

What they are attempting to revive is the notion – long lost in many American cities – of downtown as the cultural centre, the "entertainment destination". It is an experiment in commercial development, and a performing arts venue is part of the package. The 2,100-seat auditorium is modelled loosely on Carnegie Hall, and only the still-sparkling, newly quarried Texas Cordova cream limestone exterior, the up-to-date handicap facilities and the ornamental, trumpet-blowing angels on the façade place it unmistakably in our own era.

A clarinettist sat in an especially 'live' spot: the players clearly didn't yet know what the new hall's acoustic permitted

Inside, Bass Hall is a smartly designed and pleasing space. There are some odd lobby details, such as stairs on the main level that stymies the crowd's flow at intermission, and small things that need fixing: a properly stocked coffee bar, a convenient space to sell a few CDs and books, and doors that don't close with a distracting thud. But most importantly, the acoustic is on the whole acceptable, although some final tinkering awaits.

Acoustician Christopher Jaffee, (from Jaffee, Holden, Scarbrough Acoustics) has created a flexible, high-tech environment. Sound absorbing curtains ring the auditorium's upper walls and the stage shell is fitted with adjustable baffles to seal the walls tight or to allow sound to leak out, as desired. Most prominently, a ceiling canopy of sound reflectors, five strips of gold-coloured wood the width of the stage, can be "tuned" to meet the layout of the assembled forces – although many halls have found that frequent readjustment of similar acoustical canopies is inconvenient; they tend to sample all the possible settings for the first season or so and, once in a best-compromise position, leave them be.

The $67 million Bass Hall will be a multi-purpose venue, housing not just the Fort Worth Symphony but also the Fort Worth-Dallas Ballet, the Fort Worth Opera and visiting Broadway musicals. Best known globally is the quadrennial Van Cliburn International Piano Competition, which will also share space. Across the street, connected via a tunnel, is a storage/rehearsal building. Yet some important matters are still in negotiation: for example, the local opera company will need a "smart" stage area, full of machinery for manipulating sets and props, whereas touring musicals want an empty box into which they unload their own machinery.

The Fort Worth Symphony, accustomed to playing in a cavernous, modernist convention centre, will naturally improve now that the players can hear each other. In an opening week performance of *Carmina Burana*, the chorus was well prepared and clearly audible, but the orchestra was mostly a grey mezzo-forte, and the violins were muddy (I sat in the parterre, cello side), too easily covered by the choir or brass. A clarinettist sat in an especially "live" spot, and the players clearly didn't know what the new hall permitted. With the announced retirement of John Giordano, after 26 years as music director, they must now search for a strong orchestra builder.

On the same programme, Nadja Salerno-Sonnenberg's charge through Tchaikovsky's Violin Concerto was not so much in search of music as to release loads of pent-up adrenalin. The soloist's spot on stage projected well, even in the quietest passages.

At the back of the upper-most balcony there is a high ceilinged cavity, just like Carnegie's, to increase volume for the cheapest seats. Yet for a chamber music concert, played with passion by the Ying Quartet, the strings sounded distant, fuzzy and dull. Carefully placed reflectors behind the performers may help, but perhaps at some loss of sound quality at the ground level.

With so many organisations sharing one stage, acoustical trade-offs may take a while to sort out. Fortunately, the hall was designed to accommodate adjustments.

THE BADEN-BADEN FESTIVAL

Neglected Verdi brought to life

Andrew Clark hails the Royal Opera's triumphant new production of 'I masnadieri'

It's sunny and sweaty outside the Festspielhaus, and all *Sturm und Drang* within. No, we're not in Bayreuth, nor Salzburg. The Royal Opera is holding court in the German spa town of Baden-Baden, the first of its summer stops outside London, and the change has already lightened the company's spirits. Shirt-sleeve temperatures and a spanking new festival theatre undoubtedly help, but the greatest fillip has been Monday's triumphant first night of a new production of Verdi's *I masnadieri*, written for London in 1847 but not produced there since. The Royal Opera is taking it to Savonlinna and Edinburgh over the next two months; London will have to wait another year.

A gifted young cast sang its socks off, supported by Sir Edward Downes and a chorus and orchestra in splendid form

Anyone even vaguely interested in Verdi should start making plans to see this production. *I masnadieri* – the first opera Verdi wrote for a foreign theatre, and the only one premiered in London – is much better than its reputation would suggest. That, at least, was the impression left by Monday's performance, in which a gifted young cast sang its socks off, supported by Sir Edward Downes and a chorus and orchestra in splendid form. Elijah Moshinsky's staging, vividly lit by Howard Harrison, does not offer much in the way of interpretation, but Paul Brown's set is simple enough to cope with Verdi's cinematic scene-changes, and sophisticated enough to reflect the emotional storms of characters for whom crisis is a way of life.

The only reason I can give for the neglect of *I masnadieri* is that it lacks a big tune and is surrounded by better-established works in the Verdi canon – *Macbeth* on one side, *Rigoletto*, *Il trovatore* and *La traviata* on the other. What this performance proves is that you should never underestimate *any* Verdi. Structurally he may be marking time, but the issues which inspired him most – moral frailty and the complexity of blood relationships – are central to the plot. His friend Andrea Maffei compressed Schiller's unwieldy first play *The Robbers* into a skeleton libretto, preserving just enough of character and situation to feed Verdi's imagination. The result has unbridled energy and blistering momentum, spiced with the kind of vocal elegance only a Jenny Lind, the first Amalia, could have prompted.

In a pre-performance talk, Moshinsky characterised the plot as a descent from 18th-century classical order to 19th-century Romantic madness: a conflict of generations, in which two warring brothers violently reject the values of their father. It's an interesting thesis, and one central to the whole *Sturm und Drang* movement.

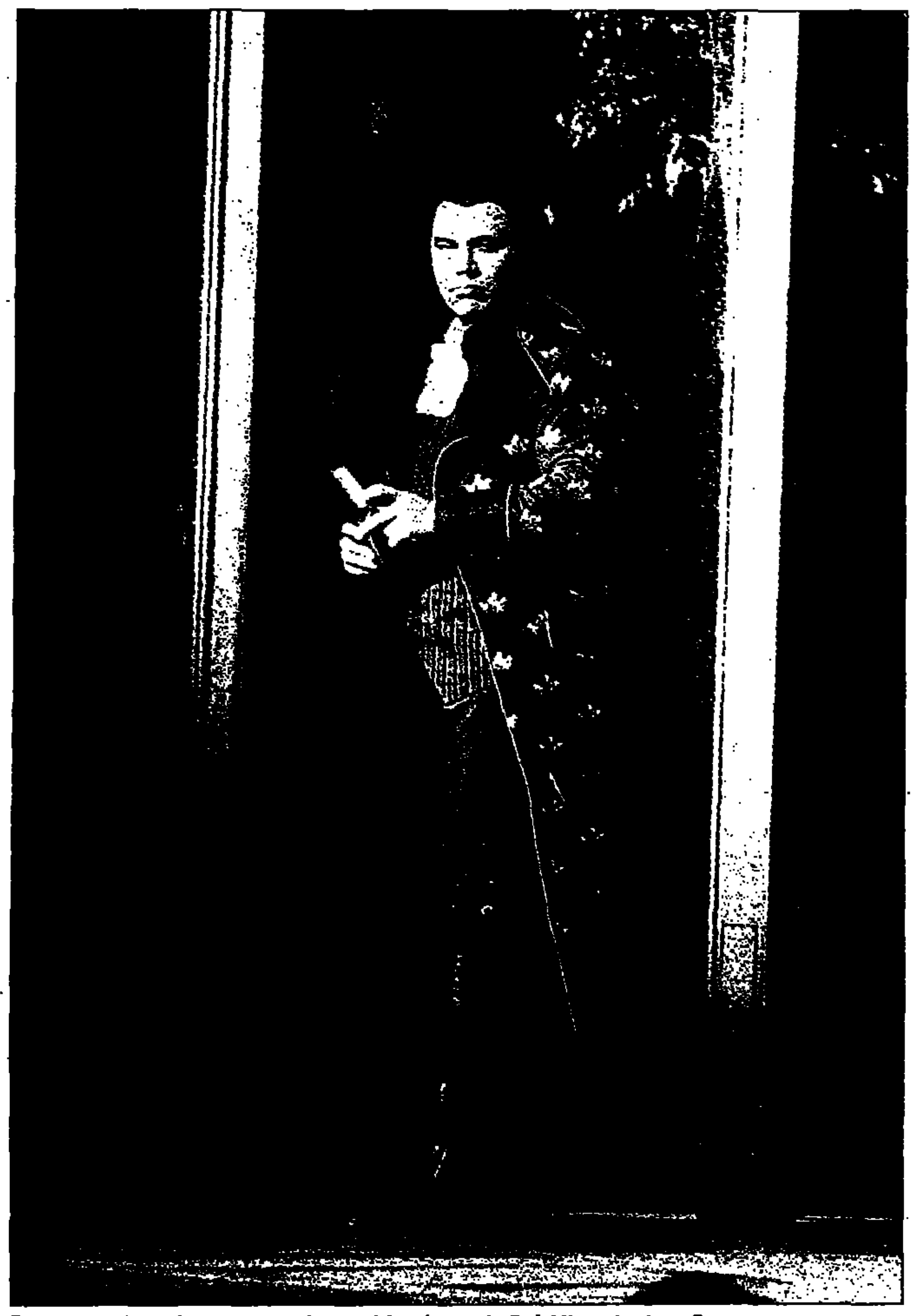
But how do you develop it in the theatre? Brown's costumes and props place the action in the period immediately after the French revolution. The set is a revolving glass wall which acts a sort of weather vane: storm clouds give way to rain and snow, and by the end the wall has disintegrated into a charred ruin. It's a simplistic way of depicting the drift to chaos – the production fails to develop beyond halfway mark – but it has the merit of breaking the stage into different shapes without stopping the action.

Moshinsky has no magic potion for Verdi's rudimentary finale, but where he does score is in the poise he brings to each ensemble and aria: the balance between movement and stillness is flawless. His four lead singers make an integrated team – old enough to have mastered the style, young enough not to have developed mannerisms.

Franco Farina's Carlo, looking like an Italian Rob Roy, wields his lusty tenor with animal muscularity, and commands an equally impressive *fil di voce*. As the dastardly Francesco, Dmitri Hvorostovsky reminds us that his Verdi is as suave as his Mozart; there's not much depth to the personality, and his nightmare aria doesn't quite come off, but he charts a confident course from unscrupulous aristocrat to conscience-stricken desperado. The American soprano Paula Delligatti is a real find: her Amalia looks fragrant, has a heavenly sense of line, and makes up in artistry and warmth of personality what she lacks in showy brilliance. Carlo Colombara completes the line-up as a dignified father-figure.

The chorus sing as if their lives depend on it, and it is impossible to exaggerate the role of Downes in preparing the score and bringing it to life. Not a note sounds crude; Downes convinces us this is music of tenderness, *grandezza* and, in the filigree woodwind accompaniments and swaggering cabalettas, bruising vitality.

This week's performances of *I masnadieri* and *La traviata* are the first staged productions in the new Festspielhaus. It's a pleasant enough building. The acoustic is bright and direct, with just enough resonance. You enter through a dignified old station building, to find an interior of cool 1990s functionalism. But what is a sleepy vacation town of 50,000 inhabitants doing with a 2,400-seat theatre? With top prices of DM600 (£200), it's hardly surprising they're struggling to attract audiences. After the Royal Opera, John Eliot Gardiner arrives with his new *Falstaff*, closely followed by the Kirov Opera. Either Baden-Baden has money to burn, or it has ideas above its station.



From unscrupulous aristocrat to conscience-stricken desperado: Dmitri Hvorostovsky as Francesco Clive Barda

Both sides of the Bard artfully caught

THEATRE

ALASTAIR MACAULAY

Much Ado About Nothing
Playhouse Theatre, London WC2

How should Shakespeare be spoken, acted, and presented? There is a larger debate on this occurring on our stages than is generally realised. Go, for example, from Cheek by Jowl's *Much Ado About Nothing* to the Young Vic's *Twelfth Night*. Both of them opened in London last week; both of them are distinctive, important stagings: one is miles apart from the other in method.

I imagine that Cheek by Jowl would disapprove of the extremes of unsupported *pianissimi* and of musical accompaniment at the Young Vic; and I imagine that the Young Vic would purse its collective lips at the textual choppings and multiple employments of the same one song used by Cheek by Jowl. Both use far too many pauses and silences, and both companies are true ensembles; but fine "ensemble style" may really be a modern imposition on Shakespeare. And so on.

My brief here is to report on Cheek by Jowl's *Much Ado*, directed by Declan Donnellan. It is intelligent and lucid, and it makes something fresh, often surprising, from the play's amalgam of black, bitter, sexist melodrama and brilliant, witty, sexually antagonistic drawing-room comedy.

Cheek by Jowl's way with a familiar play has the effect of cleansing the palate. Beatrice and Benedick change from two-dimensional drawling joketers into tenderly compassionate and painedly honourable lovers. Claudio's shocking readiness to denounce Hero at the altar as a strumpet is put in context of his (slightly homosexual, largely misogynistic) military male ethos. The absence of obtrusive scenery and the flexible use of stage props is (in Nick Ormerod's designs) a tonic, and is part of Donnellan's always wonderfully mobile directorial method in which scene fluently overlaps with, or contrasts with, scene as if by cinematic editing.

The production (set in roughly Edwardian period) gains momentum and texture as it proceeds. About much of its earlier scenes, I have reservations. The Cheek by Jowl style is often emphatic, sometimes laboured. Some of its splicing of scenes is excessive, as are some of its pauses mid-line. It takes far too long a time for any of these characters to become three-dimensional; and the house style tends to introduce them with a strenuously one-dimensional character device.

Beatrice and Benedick both drawl so much at first that it weighs down their wit. And the ball is so noisy that they have to shout over its music. Far too much is made of the pulling of Hero's bridal bodice-strings: any bride might faint in those conditions, regardless of her degree of shock and innocence. Her father Leonato's slow silent walk across the stage to point his finger at Claudio is an over-artful effort at suspense. Cheek by Jowl strips away many bad post-Shakespearian trappings from Shakespeare; and yet its method is not the art that conceals art.

Something fresh is made from the play's amalgam of witty drawing-room comedy and bitter, sexist melodrama

Saskia Reeves and Matthew Macfadyen are Beatrice and Benedick. Their playing of the later scenes is beautifully multi-faceted, funny, and touching: their big scenes are played with greater delicacy and speed than almost any other London production of at least the last 10 years. Too bad they have to work so hard earlier on. For a long while, only Justin Salinger as Borachio speaks the speech trippingly. But there is no bad performance here; the company style carries even the weakest actors. Too much point is made of "Men were deceivers ever" (this *Much Ado* hovers on the brink of making *Much Ado* a feminist tract); but the company's singing of the wedding and mourning chorales (music director Paddy Cunneen) is most affecting.

Seldom onstage is *Much Ado* both dark and light. Sometimes it is too unrelievedly bitter, usually too brightly comic. Cheek by Jowl catches both sides. At times, you want it altogether more artless; but, by the end, it has added up into a complex experience. One is both uplifted and disturbed; and the combination makes one feel – as Shakespeare should – more human.

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Siegfried: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Jun 13

BERLIN

CONCERTS
Konzerthaus
Tel: 49-30-203090
● Berlin Symphony Orchestra: conducted by Michael Schonwandt in Messiaen's "Turangalila" Symphony; Jun 11, 12, 13, 15
● Berliner Symphoniker: conducted by Stefan Malzew in works by Brahms and Strauss. With clarinet soloist Wolfgang Meyer; Jun 14

Philharmonie
Tel: 49-30-2548 8354
● Berlin Philharmonic Orchestra: conducted by Lorin Maazel in works by Strauss and Wagner; Jun 10, 11
● Berlin Philharmonic Orchestra: conducted by Wolfgang Sawallisch in works by Haydn; Jun 15

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Manon: by Massenet. New production conducted by Jiři Kout in a staging by Cesare Lieve. With sets by Margherita Palli and costumes by Luigi Perego; Jun 11, 13

BONN

EXHIBITIONS
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
Great Collections: the latest in this series of exhibitions is devoted to the Musée du Petit Palais in Paris. Concentrating on the museum's holdings of 19th century French art, the show comprises nearly 200 works and ranges across painting, drawing and sculpture. Includes works by Ingres, Delacroix and the Impressionists; to Sep 27

Kunstmuseum
Tel: 49-228-776 260
Parti Pris: more than 400 photographs by designer Karl Lagerfeld, including portraits, architecture and landscapes; from Jun 10 to Jul 26

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
The Turn of the Screw: by Britten. New production conducted by Antonio Pappano in a staging by Keith Warner, with designs by Stéphane Lazaridis. Cast includes Susan Chilcott and Anthony Rolfe Johnson; Jun 14

DUBLIN

EXHIBITION
Irish Museum of Modern Art
Tel: 353-1-612 9900
Peter Shelton: godspipes. Monumental sculptural piece by the Los Angeles-based artist, b.1951. Inspired by the human body, it comprises hundreds of lead and fibreglass pipes installed in the museum's West Wing; to Jun 14

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Cosi Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; Jun 12
● Katya Kabanova: by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg, with designs by Tobias Hoheisel. Cast includes Amanda Roocroft. With the London Philharmonic Orchestra; Jun 11, 14

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
● Die Walküre: revival of last year's collaboration between Leif Segerstam and Götz Friedrich, with designs by Gottfriend Pilz; Jun 11, 14
● The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Okko Kamu; Jun 10

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Bernard Haitink in works by Mozart and Strauss; Jun 11, 14

Wigmore Hall
Tel: 44-171-935 2141
Aaron Rosand: recital by the violinist of works by Beethoven, Bach and Brahms, accompanied by Hugh Sung; Jun 10, 13

DANCE
Barbican Theatre
Tel: 44-171-638 8891
The Royal Ballet: triple bill comprising Ninette de Valois' The Rake's Progress, Ashton's Birthday Offering, and a new work by Ashley Page; Jun 15

EXHIBITION
Hayward Gallery
Tel: 44-171-261 0127
www.hayward-gallery.org.uk
Anish Kapoor: one of a generation of British artists who came to prominence in the 1980s, Kapoor creates sculptures using stone, steel, and mirrored metal. This is the first major showing of his work in a public gallery in Britain, and includes massive new stone pieces; to Jun 14

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Carmen: David Ritch and John La Bouchardière direct a revival of Jonathan Miller's production, conducted by Noel Davies. The title role is sung by Sally Burgess; Jun 11, 13
● Doctor Ox's Experiment: world premiere of a new opera by Gavin Bryars, with a libretto by Blake Morrison, after Jules Verne. The production is directed by Atom Egoyan, with sets by Michael Levine and costumes by Sandy Powell. Cast includes Bonaventura Bottone; Jun 15
● Manon: by Massenet. New production by David McVicar, designed by Tanya McCallin. Rosa Mannion sings the title role and the conductor is Paul Daniel; Jun 10, 12

MANCHESTER

CONCERT
Palace Theatre
Tel: 44-161-242 2503
Opera North: Of Thee I Sing, by George Gershwin. Concert performance, with Rebecca Caine and Kim Criswell; Jun 13

OPERA
Palace Theatre
Tel: 44-161-242 2503
● Opera North: Joan of Arc, by Verdi. New production by Philip Prowse, conducted by Richard Farnes with a cast headed by Susannah Glanville and Arthur Davies; Jun 10
● Opera North: Eugene Onegin, by Tchaikovsky. New production by Dalia Ibelhauptaite, conducted by Steven Sloane. The cast is led by Alwyn Mellor and Peter Savidge; Jun 12

MARTIGNY

EXHIBITION
Fondation Pierre Gianadda
www.gianadda.ch/index.html
Paul Gauguin retrospective: organised to mark the gallery's 20th anniversary. More than 100 works have been borrowed from public and private collections from around the world; from Jun 10 to Nov 22

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Manon Lescaut: by Puccini. Production by Liliana Cavani conducted by Riccardo Muti; Jun 10, 11, 15

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Horst Stein in Pfitzner's "Von deutscher Seele". With soloists Doris Soffel, Luana DeVol, Thomas Moser and Alfred Muff; Jun 11, 13, 15

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Mahler, including Symphony No. 5. With mezzo soprano Frederica von Stade; Jun 12, 13

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Japan Philharmonic Symphony Orchestra: conducted by Neeme Järvi in works by Grieg and Beethoven; Jun 13
● *Yomiuri Nippon Symphony* Orchestra: conducted by Jeffrey Tate in Haydn's Die Jahreszeiten; Jun 11

TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
● ***CNN International***
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● Business/Market Reports:
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

EDWARD MORTIMER

Serb tragedy

In Kosovo, as in Bosnia, western intervention seems likely to be too late and too half-hearted to avert disaster

Terrorism pays. At least, it does if you accept the US description of the Kosovo Liberation Army as a "terrorist" organisation.

A year ago, Kosovo was an issue strictly for Balkan specialists. They knew it was where all the Yugoslav troubles started in the late 1980s when Slobodan Milosevic, the president of federal Yugoslavia, whipped up Serb fears of Albanian domination to build himself a nationalist power base. They also knew it was an unresolved problem, since the ethnic Albanians (92 per cent of the population) aspired to independence, while the Serbs remained implacably determined that Kosovo – "our Jerusalem" – was an inalienable part of Serbia.

That was why the US maintained an "outer wall" of sanctions (mainly a ban on World Bank and International Monetary Fund loans) on Serbia even after Mr Milosevic had accepted the Dayton agreement on Bosnia. But little was actually being done about Kosovo. It was not a crisis worth the attention of presidents or prime ministers.

Now, by contrast, Tony Blair is discussing it on the phone with Bill Clinton and Boris Yeltsin. The European Union and the US are reimposing sanctions. Nato is reviewing military options. The UK is circulating a draft UN Security Council resolution authorising the use of "all necessary measures". This is serious stuff.

What has changed? A year ago Kosovo was miserable, poor, sullen, resentful … but peaceful, because the population was sticking to the Gandhian strategy prescribed by Ibrahim Rugova, the "president" it had elected, unofficially but overwhelmingly, in 1992.

Mr Rugova aimed to achieve independence peacefully, by cultivating western support and counting on the 16-to-one difference in birth rates between Albanians and Serbs. Better wait a decade and win peacefully, he argued, than rush and risk hundreds of thousands of lives.

But this strategy became increasingly untenable after Dayton. As the Bosnian journalist Tihomir Loza explains in last month's issue of the review Transitions: "Rugova's great strength was supposed to be access to western governments, but he – and thus the Kosovo Albanians – had failed to win an invitation to the biggest Balkan talks of the decade."

The Bosnian Serbs, who had committed all kinds of atrocities, won a place at the table and a virtually independent state comprising nearly half of Bosnia's territory. The Kosovo Albanians, who had behaved with exemplary moderation, got nothing.

Not surprisingly, some of them decided to abandon Mr Rugova's strategy and begin a guerrilla war. No doubt they anticipated the ferocity of the Serbian counter-offensive – which has now driven tens of thousands of ethnic Albanians from their homes – counting precisely on that to mobilise international interest.

Sure enough, it has done. Unfortunately it has also played straight into Mr Milosevic's hands. For him, to quote Mr Loza again, "the recent violence in Kosovo has been a political boon, mobilising public support and pulling any straying politicians into line".

So: the world's attention is aroused. It can see what Mr Milosevic is up to. This time, it wants to stop him before it is too late. What can or should it do?

There are only three possible outcomes, succinctly summarised in a timely book from an Athens think-tank.* They are: independence; partition between Yugoslavia and Albania; and some degree of autonomy within Yugoslavia.

So far the Kosovo Albanians, in public at least, are willing to accept only the first. But the Serbs, "with their fatal instinct for worst-case scenarios", as the retired British diplomat Sir Reginald Hibbert puts it, "choose to interpret this as meaning 'Anschluss' with the republic of Albania".**

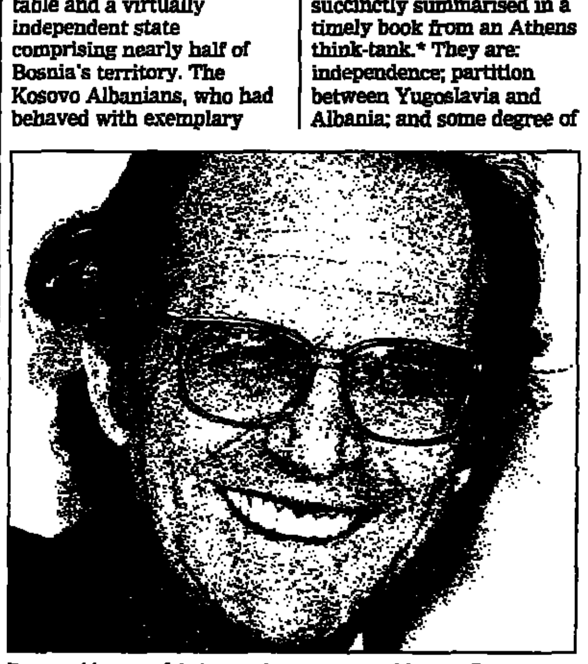
The west, so far, also opposes independence, having decided in 1991-92 to accept the break-up of the former Yugoslavia while treating the frontiers of its constituent republics as sacrosanct. (Kosovo has been part of Serbia since 1912, although between 1974 and 1989 it was in all but name a separate republic.)

Behind this apparently arbitrary doctrine lies the fear that independence for Kosovo would trigger a further conflict in Macedonia, where the large Albanian minority (officially 23 per cent, but claiming to be 40 per cent, of the population) is almost as disaffected from Slav rule as is the majority in Kosovo.

The solution most outsiders would favour is for Kosovo to be given equal status with Montenegro as a third republic in the Yugoslav federation, in return for an internationally guaranteed undertaking not to secede.

This idea is apparently backed by President Fatos Nano of Albania; and Mahmut Bakalli, a former Titoist leader in Kosovo who openly advocates it, was included in the team formed by Mr Rugova in April to negotiate with Mr Milosevic.

Unhappily, those talks have now collapsed. Mr Milosevic has opted for war which, as elsewhere in the former Yugoslavia, will lead, via ethnic cleansing, to either partition or the expulsion of the Serbs from the entire province. It bodes no good to anyone in the region – but least of all to the local Serb population in whose interests it is ostensibly being fought.



Rugova: his peaceful strategy became untenable after Dayton

Kosovo: Avoiding Another Balkan War, Ed. Thanos Veremis & Evangelis Kofos, Eliamep, Athens, fax +30 1 364 2139

***The World Today, June 1998*

Edward.Mortimer@FT.com

LETTERS TO THE EDITOR

Risk-taking overly encouraged by safety nets

From Mr Hugh Douglas.

Sir, Stephen Fidler's article on a safety net provided by the International Monetary Fund, or any other financial institution, having the effect of being a "moral hazard" is correct ("The danger of a safety net", June 4).

Many examples exist that substantiate the view that, indeed, safety nets do inculcate taking greater risks than would otherwise be the case. We are human, fortunately. I can cite several examples:

- Many economists in the US state that the saving and loan crisis was in part caused by the federal government insuring each deposit account for $100,000, which allowed S&L to assume higher risks with depositors' money. Had the insurance been for each depositor, the meltdown may not have occurred.
- Automobile insurers find that four-wheel-drive "Jungle Jim vehicles" (sport utility vehicles) have more accidents in wintry and rainy conditions than ordinary cars because drivers take greater risks, believing that all is safe with 4WD!
- In the UK, when wearing seat belts was made mandatory, serious injury and death of drivers and passengers declined, but more pedestrians were injured and killed. Why? Becaused drivers took greater risks, believing that seat belts would hold them from harm.
- Insurers in the US discovered that companies carrying high coverage against fire and accidents are more likely to file claims because, feeling "safe" with high levels of insurance protection, employees are less careful and tolerate risky situations.

These examples merely suggest, and rightly so, that humans override safety mechanisms because of a natural propensity for risk-taking. I would suppose that the invention of the stirrup that allowed a rider to gallop faster and turn quickly had no effect at all on safety because the horseman, no doubt a gallant and dashing fellow, was able to be a swashbuckler with more derring-do than sense.

Bankers, brokers, investors, politicians, statesmen even, are human. They take greater risks to increase profits (not a bad word) or their egos (probably bad) knowing governments (we taxpayers) will guarantee their follies.

The IMF does more harm than good. Crashes are healthy because they clean out a system gone awry, and swashbucklers, riding a frothy beast of liquidity, return to milking cows, or whatever they came from before being attracted to easy cream and riches.

Hugh Douglas,
80 Austin Drive,
PO Box 1092,
Burlington VT 05402, US

Hardly a case of reform

From Mr Edward S. Herman.

Sir, Your statement, in "Californians reject campaign curbs"(June 4), that "Legislative attempts to cut the vast amounts of money spent in US political campaigns looked doomed to failure after voters in California rebuffed efforts to reform campaign finance", once again seriously misuses the word "reform".

The defeated California initiative was designed almost entirely to limit the contribution of organised labour to elections. But as labour accounts for only one-seventh as much as business in the sums spent on US elections, this "reform" hardly gets at the heart of the matter, and is in fact a tactic of Republican friends of business to further bias electoral money flows in their favour.

Your statement that the anti-union measure was "narrowly defeated" in a 54-46 per cent vote is also misleading. The FT referred to a comparable margin of victory by Bill Clinton over Bob Dole in 1996 as "a solid vote of confidence".

Edward S. Herman,
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US

Not the SFO's conclusion

From Mr James O'Donoghue.

Sir, The headline "Fraud prosecutors' methods challenged" (June 9) and report by John Mason that the Serious Fraud Office "… concluded last year that criminal dishonesty was behind the £77m losses suffered by NatWest Markets over the mispricing of derivatives …" are a misrepresentation of the SFO's position with regard to the allegations made in the Papouis/NatWest Markets case.

The SFO was satisfied that the alleged £77m losses suffered by NatWest Markets were not caused by dishonesty or fraud. What was apparent to the SFO was that there had allegedly been a dishonest cover-up or concealment of the losses to avoid detection: this allegation, if proved, could have constituted false accounting, an offence under the theft act. However, the case appeared fundamentally no different, except in scale, from other cases of alleged mis-marking which the regulators deal with regularly.

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UK

Employers must also play their part in career building

From Mr Scott McQuade.

Sir, I was reassured by Professor John Hunt's article, "Depression: Survive the mid-career crisis" (June 3), that I'm not alone. But he lets employers off too lightly. True, we must each take charge of our own careers and avoid playing victim. But surely employers wanting loyal and ambitious staff should provide career-building opportunities? Failing that, a modern employer should, for its own sake, invest in skills development or, at a minimum, career counselling.

Given the emphasis of recruiters on prior experience, employees are likely to have the greatest chance of extending their skills while working for their current employers. Without opportunities to expand and develop, a career path becomes much narrower and there is less scope to break out.

I also suggest that, due to an increasing emphasis on recruiting young staff, many employees face career crises much earlier than 38-46 years specified by Prof Hunt.

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Dead end drugs war

Washington is flirting with the idea of changing its tack on combating the world's illegal drugs trade, says **Stephen Fidler**

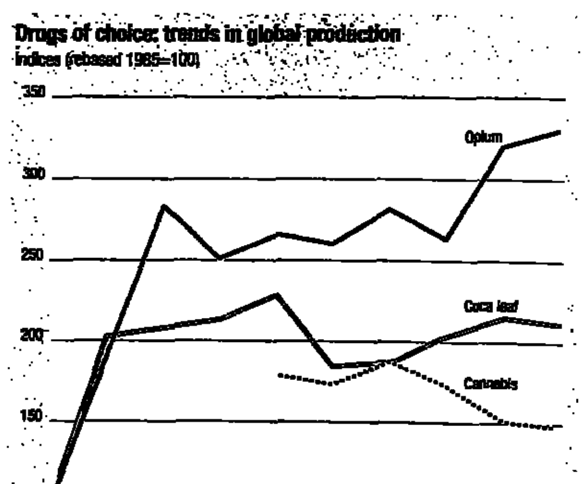
In the US war against drugs, upsetting Mexico has been a long tradition. More than 80 years ago, as lawmakers in Texas debated the first ordinance to outlaw marijuana in the US, a Texas senator declared: "All Mexicans are crazy and this stuff is what makes them crazy."

Last month, Mexicans howled in protest after a US "sting" operation to lure Mexican bankers appeared to have been carried out without the knowledge of Mexico's government.

More than Mexican sensibilities have suffered in what many view as one of the US's least successful exports: drugs prohibition. Since 1875, when San Francisco city authorities banned opium smoking, US strategy has emphasised legal prohibition. This approach has been followed in much of the western world. The trouble is most drugs transactions bring together willing sellers and willing buyers. Neither is anxious to report a crime.

Dissatisfaction with existing policy, at least among some opinion formers, greeted leaders from around the world as they arrived in New York this week for a three-day special session of the United Nations General Assembly on drugs policy. It was contained in a letter published in a two-page advertisement in the New York Times from about 350 public figures and academics – including Javier Pérez de Cuellar, former secretary-general of the UN, George Shultz, former US secretary of state, and George Soros, the prominent international financier.

"We believe that the war on drugs is now causing more harm than drug abuse itself," they argued. The strategy, which "focuses largely on criminalisation and punishment", had helped create an illegal drugs industry worth an estimated $400bn a year (equivalent of 8 per cent of world trade). "The industry has empowered organised criminals, corrupted governments at all levels, eroded internal security, stimulated violence and distorted both economic markets and moral values." It had hampered public health efforts to counter the spread of diseases such as HIV. In its name, human rights had been violated, environmental assaults perpetrated and prisons inundated.



Though thin on concrete proposals, the letter argued that there was an alternative: to "reduce the harms associated with drugs" as opposed to a no-holds barred attack. Proponents of a "harm-reduction" approach, such as US-based academics Peter Reuter and Jonathan Caulkins, argue that the traditional goal of US drugs control policy – reducing drug use – is too narrow.

In a 1995 paper they wrote: "The principal goal for drug policy should instead be to reduce harms to society arising from the production, consumption, distribution and control of drugs. Total harm (to users and the rest of society) can be expressed as the product of total use and average harm per unit of use … Attention has been focused on the first; greater attention to the second would be beneficial."

Many proponents of harm reduction lean towards decriminalisation of the consumption of some drugs, though most do not favour outright legalisation. Nonetheless, their approach meets no favour with current policymakers in the Clinton administration, who see it as the thin end of a wedge leading to legalisation. The administration is sensitive to the charges of being "soft on drugs" given Mr Clinton's admissions about flirting with marijuana.

General Barry McCaffrey, the director of the US Office of National Drug Control Policy, denounced the harm reduction approach this week. He said there was "not a shred of support for drug legalisation" among the US people. "That will not happen in the United States, no matter how you word the question, and that's why we are seeing some very subtle indirect approaches to drug legalisation: the medical marijuana issue; hemp as a solution to the nation's textile problems; whatever."

Gen McCaffrey may not be just blowing smoke over worries about legalisation. The case for it depends largely on the assumption that demand for drugs is inelastic – in other words not affected significantly by price changes. Not much research has been done on the subject, but some of it weakens the case for legalisation.

A 1995 paper published by the National Bureau of Economic Research on demand for illicit drugs concludes: "Drug use is more price responsive than people had previously thought." The authors, Henry Saffer and Frank Chaloupka, studied extensive data about patterns of drug abuse in the US. "It is estimated that legalisation would lead to about a 100 per cent increase in heroin use and about a 50 per cent increase in the quantity of cocaine consumed," they said. This conclusion is based in part on other work suggesting criminalisation increases the price of drugs five-fold.

Though it has maintained the essence of its anti-drugs strategy, the administration has shifted its approach. One example is its conduct of the "drugs war" abroad, which is recognised to have contaminated its relations with much of Latin America. The administration has softened its rhetoric and is now willing to lay as much stress on demand as supply, even conceding that it is also an important drugs producer (as well being the principal market).

Moreover, the emphasis is being reduced on the annual "drugs certification" by the US, through which the administration assesses how other countries are doing in the drugs fight and levies sanctions against those deemed not to be co-operating. While not removing the certification law from the statute books, Washington is placing more weight on multinational bodies, such as the Organisation of American States, through which other countries will be able to criticise the US too.

The administration has also made soothing public noises about the "visionary thinking" of Pino Arlecchi, the new director of the UN Drug Control Programme. He has used this week's meeting to seek funding for a programme to use alternative development strategies to eradicate all cocoa and opium poppy plants in the world by 2008. This is not to say US officials do not have their doubts, partly because they do not want to pour money into producing regimes, such as those in Afghanistan and Burma.

Many politicians in the US and elsewhere remain unconvinced of the necessity to take a new approach. Spencer Backus, a Republican congressman from Alabama, incensed by Mexican criticism of last month's sting operation, said yesterday: "The war on drugs will always be stymied if we put diplomatic concerns first and let drug dealers continuously hide behind national borders."

COMMENT & ANALYSIS

FINANCIAL TIMES
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The banks in east Asia

Outside sources of finance – particularly banks – bear heavy responsibility for the Asian financial crisis. On this, the Bank for International Settlements has a grim story to tell in its latest annual report. The tale demands not just attention, but prompt action.

The BIS report starts by casting deserved doubt on the popular nostrum that better information will eliminate such crises. "What is also needed is the vision to imagine crises and the will to act pre-emptively," it warns persuasively.

This is no idle warning. In the five most affected Asian economies, net interbank lending, plus lending to non-banks, ran at an annual rate of $22bn between the last quarter of 1996 and the third quarter of 1997. Then, in the fourth quarter, the inflow suddenly turned into an outflow of $32bn.

Unfortunately, the lenders were not just incompetent. They had reason to suppose they would be repaid: governments – notably of South Korea and Thailand – guaranteed the liabilities of their banks. It was also plausible to assume they could be persuaded, or forced, to help repay debts owed by non-banks as well; and that they would obtain the foreign currency needed to meet many of the liabilities from international rescue packages.

No less important to such calculations must be the willingness of borrowers to bear pain. The Organisation for Economic Co-operation and Development has recently forecast an improvement of $101bn in the current accounts of the five most adversely affected Asian economies between 1997 and 1999. So much of the debt may indeed be repaid.

Lend stupidly; act tough; and watch the money return. That is a perfectly sound policy for the world's most powerful banks. Is it a satisfactory one? The answer must be no, not just because of the encouragement to take such risks again, but also because of the burden imposed on ordinary people in the capital-importing countries.

This sorry tale raises fundamental questions, all noted by the BIS. One is whether it can ever make sense to offer public safety nets to both debtors and creditors which seem to eliminate virtually every form of risk. Another is whether supervisory regimes are encouraging banks to be imprudent, particularly in the interbank market.

The burden imposed upon banks that rely on implicit government guarantees needs to be greater. They should, for example, take some responsibility for the "ongoing provision of credit to customers to whom they had previously lent all too freely". To bring banks to the negotiating table, a "unilateral stay of payments" could well be helpful. To achieve this, international financial institutions should lend even to countries in default as long as they have acceptable policies.

Not least, prevention will never work perfectly. There must also be an orderly writing down and subsequent work-out of unpayable private debts, whenever these threaten the stability of entire economies.

This is not just the right policy; it needs to start now in east Asia. Otherwise, the prospects for the afflicted economies will be blighted for years.

After Abacha

The death of General Sani Abacha, Nigeria's military leader since 1993, raises yet more fears about the stability of Africa's most populous nation, its largest debtor, its biggest oil exporter – and possessor of the continent's biggest army.

There is, however, now an opportunity for General Abdusalam Abubakar, Nigeria's new leader, to break the impasse in relations with the rest of the world, and commit Nigeria to a genuine transition to democracy. If there is to be any chance of this, the sooner talks at ministerial level are held with the new regime the better.

But first a confused policy needs to be clarified. The Commonwealth is divided, with African members less enthusiastic in their support for the modest sanctions in place – on visas or the supply of arms – than Britain. Yet even Britain, along with other members of the European Union and the US, has been sending mixed signals. While talking tough, western countries are reluctant to impose measures – notably an embargo on Nigerian oil exports – that would damage their commercial interests.

The new leadership in Nigeria, however, offers the chance to persuade Gen Abubakar to start anew. Any fresh initiative should accept that the promised return to civilian rule by October this year has long lost credibility. Nor does it seem practical to return to the aborted poll of June 1993, won by Chief Moshood Abiola but annulled by the regime.

Instead fresh elections must be held within 12 months. The west can encourage the new Nigerian leadership down this path, by spelling out the benefits of rescheduling the country's $35bn external debt in return for economic reforms. It can help with retraining the army and support a demobilisation fund which provides golden handshakes to officers who would otherwise want to retain power for the sake of the patronage it brings.

The international community should co-ordinate a crash programme of assistance: rapid despatch of basic drugs for clinics, buses to ease the chronic transport problem, help in rebuilding universities and civil services. These measures can be financed out of oil earnings to come.

An essential part of the bargain must be the release of Chief Abiola and former military leader Olusegun Obasanjo. The transition to democracy will still be perilous, but would be a welcome step in the right direction.

France grounded

Airline managements are notoriously loath to stand up to their pilots. The people who fly the aircraft are highly skilled and hard to replace, and they know it. But as the stoppage by Air France pilots today enters its 10th day, kick-off time for the World Cup, the state-owned carrier and the government of Lionel Jospin are at last showing some backbone. If they are successful, the outcome could prove a watershed in how the government tackles the problems of its oversized state sector.

The dispute is the legacy of past failure of governments to support Air France chiefs in restructuring the airline. Bernard Attali was ready in 1993 to take on a strike by the Air France unions, but was fatally undermined by the then Gaullist prime minister, Edouard Balladur. His successor Christian Blanc turned the airline around and put it into profit. But his plan to secure this achievement through privatisation ended last year in a quarrel with Mr Jospin and in his own resignation. New in office, Mr Jospin was at that stage too nervous about the reactions of his leftwing coalition allies to contemplate privatisation.

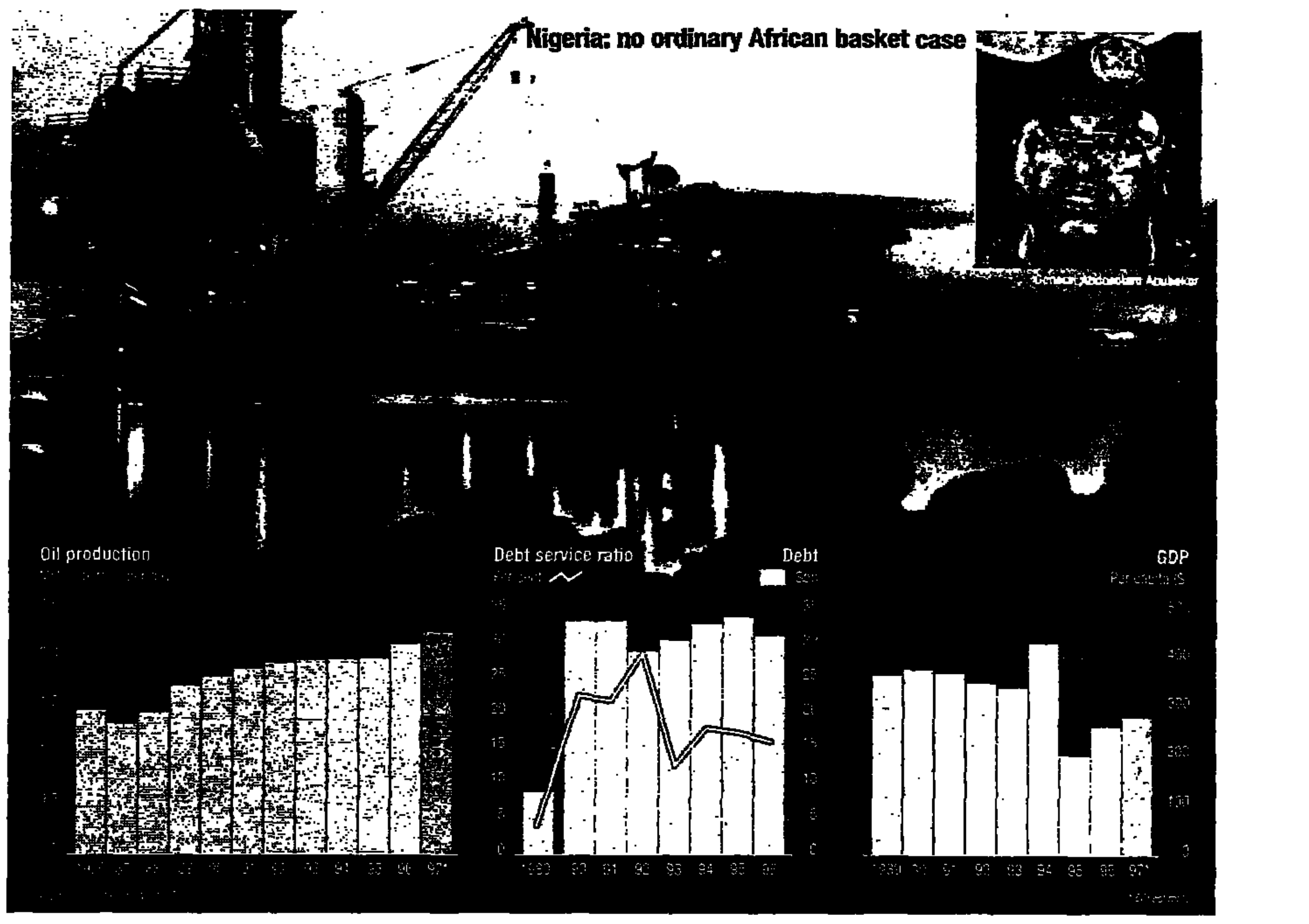
Now, master of his coalition and riding high in the polls, Mr Jospin seems willing to make amends for his earlier faint-heartedness. His is backing the plan by Jean-Cyril Spinetta, the current Air France president, to sell off 20 per cent of the airline's capital by the end of the year, and to fund an ambitious investment programme out of internal savings.

Mr Spinetta wants to lop FFr500m (£51.2m) a year off his pilots' wage bill. This might seem a lot, were it not for the fact this is only one-sixth of Mr Spinetta's total planned savings and that the average Air France pilot is paid 40 per cent more than his Lufthansa counterpart and 19 per cent more than at British Airways.

For this reason, the pilots' strike is generating little public sympathy, all the more so because of the disruption to world football's showcase event. The strike has already wiped out more than half the FFr1.87bn profit Air France made last year, its first surplus in seven years. It has also cost the airline market share at a time of peak demand. But the long-term damage of conceding to the pilots would be far greater. A cave-in would surely sabotage the partial privatisation, the key to the airline's industrial and financial future.

Africa's 500lb weakling

As one military leader replaces another, Nigeria is poised between the possibility of recovery and a final descent into chaos, say **Michael Holman** and **David Pilling**



It likes to call itself the Giant of Africa. It talks about one day having a seat on the UN Security Council. It sends troops to restore democracies abroad. But burdened by debt, debilitated by corruption, and victimised by decades of military mismanagement, Nigeria has long been a symbol of continental failure. Now, under yet another khaki-clad president, it faces the possibility of something much worse: not merely drift but disaster.

The country, which yesterday swore in its eighth military leader since independence, has already seen its income per head whittled down from $1,000 in the early 1980s (when it was categorised as a middle-income country) to a paltry $300 today. Total oil revenue of more than $210bn over 25 years has proved a curse not a blessing as successive military regimes have squandered it on white elephants or diverted it to bank accounts abroad. Self-serving policies have laid a once-powerful agricultural sector to waste.

Yet Nigeria is no ordinary African basket case. With an estimated population of at least 100m, an oil industry that exports 2.2m barrels a day (making it the world's seventh largest exporter) and a large, potentially disruptive army, Nigeria matters to Africa and to the wider world. The country, still the second-largest sub-Saharan economy after South Africa, has debts to the tune of $35bn, making it a serious worry for the international banks.

Now, Nigeria is at a turning point. Under the leadership of Major-General Abdusalam Abubakar, thrust into office yesterday after the unexpected death of General Sani Abacha, it has the opportunity to arrest the drift of three decades. If it fails, it could slip further towards the fate of the Democratic Republic of Congo (formerly Zaire), a country whose civil and physical infrastructure has collapsed and which has fallen so far it may no longer have the capacity to engineer its own recovery.

Nigeria might just drift on wearily: as a pariah state with an impoverished hinterland increasingly detached from an enclave, and still functioning, oil economy. (After all Angola managed to keep exporting oil during the bloodiest years of its debilitating civil war.)

But Nigeria could just as easily fulfil the nightmare of long-time observers by breaking up along ethnic and religious lines. It threatened to do just that during the Biafran war of 1967, when the oil-rich south-east of the country declared independence. One possibility now is that the Moslem north, which controls the army, could commandeer the south-east and expel the Yoruba-dominated south-west from the federation. Lurking in the background is the danger of a resurgence of Moslem extremism, which could spread beyond Nigeria's borders (nearly half the country are Moslems).

What further complicates matters for outsiders is Nigeria's regional security role in Africa. Only recently, the Commonwealth (whose relationship with the Abacha regime was at an all-time low) felt obliged to pat Nigeria on the back for its military efforts in restoring the exiled government of Sierra Leone.

Perhaps the most serious consequence of Nigeria's continued malaise is the damage it would do to Africa's image. The changeover comes at a time when President Bill Clinton and others have been portraying the continent as being on the verge of economic and political renaissance under a new generation of democratic leaders.

That optimistic view already looks naive, given disappointment over General Laurent Kabila's new administration in Congo and the unexpected war that has erupted between Eritrea and Ethiopia, two of Africa's supposedly rising democratic stars. If Nigeria drifts into chaos, the vision of a new Africa will be all but dead.

So how did things go so wrong for Africa's giant? When Nigeria gained independence from Britain in 1960, many thought it could become the economic motor of the continent's growth. Such illusions were quickly shattered. After a turbulent initial period of civilian rule, the army stepped in, setting in train a string of military regimes and a establishing a pattern of corruption hideous even by Africa's lamentable standards.

Nigeria is still paying the price. Petro-dollars were used to prop up the naira, the local currency, whose strength was treated as a symbol of national virility. The agricultural sector, once the pillar of the economy, was destroyed as palm oil and peanut exporters were unable to compete internationally with such an overvalued currency.

Petroleum earnings were also squandered on corruption-riddled building projects, such as a lavish new capital at Abuja, or a fanciful steel mill at Ajeokuta, which could never have made money and has still not been completed even though billions of dollars have been spent on its construction.

By the early 1980s, reality began to catch up. It became clear the country was spending beyond its means. The national development plan for the decade was based on an optimistic projection of oil at $40 a barrel; the price turned out to be less than half that. Things have not improved much. The current budget is still based on an unrealistically high oil price.

A country that once boasted of thriving political parties and the freest press in black Africa was subjected to stage management by military regimes determined to create civilian parties beholden to them. The judiciary lost its independence. Schools and hospitals ceased to function. The drastic decline of such institutions is raising the fears of national break-up: without them, Nigeria has little to hold itself together. The university at Ibadan, once a centre of learning, even stopped ordering new books. Like Nigeria itself, it has become cut off from the world.

If Nigeria drifts further into chaos, the vision of an African renaissance will be all but dead

With each passing year, the country's debt arrears mounted and the industrial sector, starved of foreign exchange, was reduced to barely one-third of its working capacity. So far has Nigeria's economy fallen that, even though it continues to pump oil freely, it is forced to import petroleum for want of a working refinery.

For the international community, no African country has proved so frustrating. But for all the tribulations, there is still money to be made by foreign companies. The oil and gas operations of Shell, Mobil, Chevron and Elf are among the most profitable in their sprawling empires. After the execution of the activist Ken Saro Wiwa in 1995, the Commonwealth threatened to expel Nigeria and introduce sanctions, but national divisions and lobbying by multinationals ensured this threat was never carried out.

That brings us to today. Unenviable though Gen Abubakar's inheritance is, the fact that the international community has never entirely severed links provides at least a glimmer of hope. If Nigeria's new leader is to stop the post-independence rot, he must accomplish two things.

First, he must re-establish a semblance of political legitimacy, destroyed by the previous regime when it cancelled the 1993 election won by Chief Moshood Abiola. Mr Abiola, along with Gen Olusegun Obasanjo, a respected former military leader, are now prominent political prisoners. An initial clue to the intentions of Gen Abubakar will come from his treatment of these two men.

It is not clear how Gen Abubakar will choose to act. He has wider experience of the outside world than Gen Abacha who spent his last years closeted in Abuja, seldom emerging from his heavily guarded presidential compound. Gen Abubakar trained in Britain and the US, and also served with UN peacekeeping forces in Lebanon. Optimists hope his international experience will free him of the bunker mentality of the Abacha regime, and that he will begin to make gestures such as the release of prisoners. That, though, is to assume he commands the total allegiance of an army that Gen Abacha kept in check by clamping down on plotters, real or imagined.

Like authoritarian leaders elsewhere contemplating reform, Gen Abubakar will be fearful of initiating a process he may not be able to control. If he keeps opponents in prison, his credibility will be damaged and pressures – both domestic and international – will mount. Yet if he releases them, he runs the risk that accumulated popular frustrations and deep loathing of the military will sweep him from office. That could prompt a clampdown from his fellow officers, repeating Nigeria's post-colonial pattern of coup and counter-coup.

Nor is there a risk-free answer to the country's economic woes. Gen Abubakar's main challenge is to reschedule the country's debt, which requires striking a deal with the International Monetary Fund. In 1993, the IMF in effect severed relations with Nigeria for repeated violation of agreements. Winning an endorsement from the Fund would require painful decisions at home. A key condition would be the abolition of the two-tier exchange system, a form of patronage that has helped the military stay in power by allowing favoured allies and hangers-on to buy dollars at a discount. Even if he wanted to, Gen Abubakar's power base may not be strong enough to allow such a move.

Yet if there is no deal with the Fund, Nigeria's future is bleak. The country would continue to be cut off from international capital and would be forced to survive on its oil exports, which make up 90 per cent of foreign exchange earnings. With oil prices hovering at about $14 a barrel, far below the $17 on which this year's budget was based, that could prove to be a near-impossible task.

Gen Abacha died in his bed. If Gen Abubakar is unable to resolve his country's dilemmas, he may not be so fortunate.

OBSERVER

Herbie halted in Hamilton

The master carmakers of Wolfsburg won't be losing any sleep over it, but the new Volkswagen Beetle has been banned from Bermuda.

Government officials have ruled that the curvaceous motor is too fat for the narrow streets of Britain's north Atlantic colony.

Despite protests from petrol heads among the 60,000 population, the modern-day Love Bug won't be cruising the pastel-painted avenues of Hamilton. "The vehicle is too wide," says Donald Dane, who runs Bermuda's Transport Control Department. Cars on the determinedly imperial island must be no more than 169 inches long and 67 inches wide – and Dane insists that the Beetle is an inch too broad in the beam.

While Bermudians equipped with blow-torches have been able to shorten other cars to meet the regulations, nothing much can be done about the width. So while interest in the son-of-Herbie is strong among discerning drivers, would-be Beetle owners seemed doomed to disappointment – unless the authorities are prepared to give an inch.

Smooth operator

How many former finance ministers does it take to run a telephone company? Henning Dyremose, one-time conservative minister of finance, was yesterday picked to run Danish national phone outfit Tele Danmark; alongside him on the platform was none other than Knud Heinesen, chairman of the supervisory board and holder of the government finance portfolio in the early 1980s.

But the question taxing many Danes is whether current finance minister Mogens Lykketoft knew what he was doing earlier this year when he sold a controlling interest in the national treasure to Ameritech of Chicago. Dyremose, 52, who cut his commercial teeth at healthcare group Novo Nordisk and quit politics five years ago, skirted round the issue. "I shall be happy if I can prove by Tele Danmark's performance," he said, "that the present finance minister did the right thing."

Be interesting to see if Lykketoft ever claims a seat at Tele Danmark's top table.

Attila the fun

The new government taking shape in Hungary isn't exactly fun-filled and colourful. But there are one or two faces likely to enliven cabinet meetings – such as Smallholder party chief Jozsef "Jozsi" Torgyan, a man whose old world charm disguises, according to his critics, an ability to change his tune more often than a jittery juke-box. Then there's technocrat Attila Chikan, the nominee for the powerful new economics ministry, a convivial sort who's not averse to a drink and a back-slapping laugh.

Former academic Chikan has dedicated much of his 54 years to his szakkollegium – a kind of alternative university teaching subjects outside the former communist curriculum. In the old days Hungary's young elite learned the black arts of market economics at Chikan's knee; nowadays his acolytes are found in the upper echelons of government, commerce and academia.

Former pupils fondly remember Chikan, who'll be in charge of everything from industrial policy to trade, casually walking the dormitories in a dowdy Socialist-era track suit. He's also credited with the gift of nodding off during meetings only to wake up with total recall. Could be useful in his new job.

Offside

The World Cup soccer festival could have some unpredictable knock-on effects, according to a survey of UK company finance chiefs carried out by Reed Accountancy Personnel and Accountancy Age magazine. One manufacturer of soft drinks and drink dispensing equipment says demand is certain to rise during the tournament which finally kicks off today. And so does the finance director of a company which leases and hires car radios.

So does he think everyone will want to be close to a radio to make they don't miss the action? Actually, no. He reckons everyone will be inside watching the big games on television instead. "Therefore, there could be an increase in car theft."

PoW wow

As Ethiopia and Eritrea go to war, spare a thought for Ethiopia's ace fighter pilot, Colonel Bezabeh Petros, captured last week after his MiG 23 was shot down after a raid on Asmara airport.

"Haven't we seen you before?" asked his captors. Indeed they had: Bezabeh got his first taste of Eritrean hospitality in May 1984, when he bailed out after bombing targets in the north of the country. Held as a prisoner of war until 1989, he chose to remain with his captors until the liberation of Eritrea in May 1991, after which he was sent back to Ethiopia. Must be just like old times.

High flyers

Aviation officials meeting in Montreal are confident that the millennium bug won't cause passenger aircraft to fall from the skies. So confident, in fact, that some of them have pledged to be in the air when the rest of the world is belting out the last few bars of Auld Lang Syne.

Jane Garvey, boss of the US Federal Aviation Administration, says she'll be cruising confidently at 20,000ft come the fateful midnight hour – with her chief bug-fixer sitting alongside. Could be a tense flight.

The Financial Times

100 years ago

Porto Rico Expulsion

New York, 9th June. Mr. Walter Bott, Secretary to the British Consulate at San Juan, has arrived in the United States, having received his passports and been expelled from Porto Rico by order of the Governor, General Macias, on suspicion of having furnished the United States with information as to the mining of the harbour at San Juan. Mr. Bott was previously in a dungeon for 56 hours and was grossly maltreated. But the plans of General Macias were in fact disclosed to the American Consul-General at San Juan, not by British officials or subjects.

50 years ago

Supplies For S. Africa

Cape Town, June 9. The new South African Government must take steps to overcome obstacles put in the way of supplies to South Africa by foreign Governments, said Mr. E.H. Louw, Minister for Economic Development, in an interview with Die Burger, the Nationalist newspaper, published to-day. He referred particularly to equipment for the steel industry and building requirements, the lack of which was holding up construction work.

FINANCIAL TIMES
WEDNESDAY JUNE 10 1998

THE LEX COLUMN

The long and short of it

Storm clouds are gathering once more over Japan's banking sector. Whether Long Term Credit Bank deserves to be at the centre is unclear. Long term banks may have an uncertain future and too many unperforming loans. But this is old news, not an excuse for the sort of share price slump witnessed yesterday. Still, rumours can prove self-fulfilling. If LTCB does find itself in trouble, foreigners will watch closely to see how durable its alliance with Swiss Bank Corporation proves. Were the government to put pressure on SBC to stand behind LTCB – they have a 1 per cent cross-shareholding – this could deter others from entering alliances with Japanese institutions.

LTCB aside, there are increasing echoes of the funding difficulties that led to the failure last November of Sanyo Securities, Yamaichi Securities and Hokkaido Takushoku bank. Nippon Life and other insurers are apparently taking a tougher line on funding banks. Nippon Credit Bank is struggling to restructure some of its Y217.5bn loans. Moreover, there is speculation that after the Upper House elections in July, the government may be prepared to allow some of the weaker banks to fail.

Perhaps more will become evident when the Miyazawa committee reports on further government plans for the banking sector. Do not hold your breath; of the Y13,000bn recently set aside for bank recapitalisation, only Y1.8bn has been spent so far.

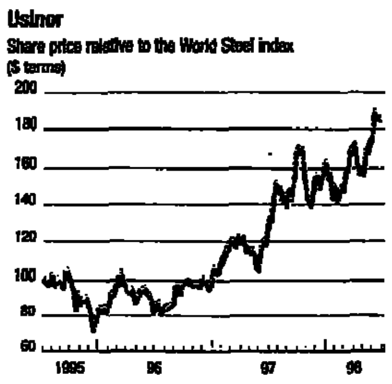
Iridium

Calling Mount Everest? You will be able to from September, when Iridium launches the first mobile phone to work anywhere on the planet. The 66 satellites providing global coverage are already up and yesterday the Motorola-backed telecommunications start-up announced it had signed distribution agreements with over 200 regional cellular phone companies, covering 60 per cent of the world population.

But Iridium's real battle is only beginning. Since its conception in 1987, mobile phone technology has exploded and new digital networks now cover most densely populated areas. Iridium has changed its strategy accordingly. Instead of competing head on with terrestrial cellular operators, it has turned them into partners. This is probably the only realistic choice. But it relegates Iridium to a niche market: international business travellers, prepared to pay a premium to stay constantly connected.

And it will be quite a premium. Iridium's clunky phones – likened to a brick with an antenna like a bread stick – will cost $3,000 each. Call charges will vary from $1 to $7 a minute. Meanwhile, cheaper rivals such as GlobalStar and ICO are only a year or two behind. On independent estimates, the group, capitalised at $700m, is trading on a racy nine times enterprise value to earnings before interest, tax and depreciation for the year 2000. Iridium is a splendid idea. But that valuation takes a lot on trust.

Usinor
Share price relative to the World Steel index
($ terms)



Source: Datastream/ICV

Usinor

It was hardly news yesterday that the French steelmaker, Usinor, was set to double first-half profits. Anything less would have been a shock. It made only FFr800m after tax in the first half of 1997, but economic recovery on the continent should help it make at least FFr3.6bn for the whole of this year – up about 50 per cent leaving aside charges. More interesting is the progress Usinor is making in terms of international expansion. Acquisitions so far this year in Brazil, Italy and Belgium are behind a near doubling of net debt from FFr5.8bn in December. But the balance sheet remains unstretched, with gearing at 35-40 per cent and interest cover rising from last year's 5-6 times. The next company in its sights is Cockerill Sambre, the Belgian steelmaker controlled by the Walloon regional government. Rivals include Krupp/Thyssen of Germany, Hoogovens of the Netherlands and Arbed of Luxembourg. To buy a controlling stake at Cockerill's speculation-inflated share price would cost well over $1bn. To avoid a share issue to fund such a deal, Usinor could sell non-core businesses – with sales of more than FFr5bn last year – and parts of Cockerill could be sold on.

But the bidder's main problem will be how to rationalise Cockerill's sites in an unemployment blackspot, with the local government breathing down its neck. No wonder British Steel looks to be standing aloof.

Thistle Hotels

No sooner do London hotels start selling to US investors for fancy prices than Thistle's heavily scarred investors scent a chance to sell out. But this one has a history of disappointment, so yesterday's 18 per cent jump in the share price to 237½p rests on hopes of a hot auction rather than experience. Less than two years ago Thistle floated at 170p – bottom of the price range. But profit downgrades, and unease at earnings flattered by low depreciation and tax charges, punctured even that floor. Thistle has since reformed and, with the London hotel market booming, now is the perfect time to sell.

Including £350m net debt, Thistle's enterprise value has risen to £1.8bn. This is 7-8 per cent above the valuation placed on the hotel assets for the flotation. On a price/earnings basis, Thistle is now trading on about 18 times 1998 forecasts, a touch above its more international rival Millennium & Copthorne. Thistle's record and the fact that 61 of its 91 hotels are UK provincial would normally dictate a discount.

Such a mix might deter Ladbroke, which is more interested in expansion outside the UK. For Stakis, the London weighting would make sense, but it would be a far more ambitious target than Swallow Hotels – part of the regional brewer Vaux. The hottest bids may well come from the US. A combined offer with a financial bidder could save time-consuming asset sales later.

Fyodorov to crack down on Russia's tax dodgers

By Chrystia Freeland in Moscow

Russia's new tax supremo yesterday launched a purge of officials in his agency and pledged to crack down on tax evaders, as the Kremlin struggled to pull the country out of lingering financial turmoil.

Boris Fyodorov, the investment banker recently appointed to run the federal tax service, launched a campaign to root out tax evasion in one of Moscow's most prestigious central blocks of flats, saying his officials would check to see that all tenants and landlords were paying taxes.

In an interview, Mr Fyodorov also said he had fired half a dozen senior tax officials in an effort to eradicate corruption and improve efficiency.

The former finance minister warned that western businessmen suspected of evading Russian taxes could be targeted in the crackdown.

"Once a couple of important western businessmen who are resident here in Moscow are stopped at the border and are told, 'Hey guys, you cannot leave, you are tax offenders, probably you have to spend a couple of years in Siberia,' I think that will make a very good example," Mr Fyodorov said.

His pledge to toughen tax collection followed the high-profile arrest on Monday night of Yuri Yurkov, the head of the state statistics committee.

Mr Yurkov is accused of falsifying statistics to help companies evade taxes and of selling statistical information to business rivals. Investigators said they had found $1m in cash when they raided Mr Yurkov's home.

The crackdown on corrupt officials and the aggressive new drive for tax collection are part of government attempts to revive Russia's ailing economy.

The RTS index of leading Russian shares fell 4.3 per cent yesterday after Standard & Poor's, the credit rating agency, downgraded Russia's sovereign rating and President Boris Yeltsin's visit to Germany failed to produce the financial support for which investors had been hoping.

Mr Yeltsin played down suggestions that his country had sought direct financial help from Helmut Kohl, the German chancellor. "For us, more important is the support – the personal support – of Helmut Kohl as a major politician in the world," he said.

Russia's weekly Treasury bill auction, scheduled for today, will be a measure of investor confidence. The ministry of finance must roll over more than $1bn in rouble-denominated bonds and will be intent on keeping yields below the 60 per cent central bank refinancing rate. Yields on Treasury bills crept back up to nearly 50 per cent yesterday.

The Russian authorities, increasingly open in their hopes for a western rescue package, will now look for indications of support to senior finance ministry officials and central bankers from the Group of Seven industrialised nations, due to meet in Paris today.

Mr Fyodorov, who is credited with having made a significant contribution to Russia's financial stabilisation, said that if he were prime minister he would press for a western aid package.

Crisis? What crisis? Page 2
Capital markets, Page 24

LTCB shares plunge on doubt over alliance with Swiss Bank

By Gillian Tett in Tokyo

Shares in Long-Term Credit Bank of Japan plunged 22 per cent during morning trading in Tokyo yesterday on mounting unease over the strength of its alliance with Swiss Bank Corporation and concern that creditors were becoming reluctant to lend to weaker Japanese banks.

LTCB denied flatly that it faced funding problems and blamed the share price fall on "groundless rumours". The bank has become the focus of widespread fears of further collapses in Japan's troubled financial sector.

The share price later recovered to close at Y167, 8 per cent down on the day.

An SBC board meeting will discuss the LTCB alliance today. James Fiorillo, analyst at ING Barings, said: "The position of LTCB very much depends on the relationship with SBC – I don't think there is much chance of its surviving on its own."

SBC, which is merging with the Union Bank of Switzerland, agreed last summer to establish three joint ventures with LTCB. Two have already started and a 1 per cent equity cross-shareholding is in place.

SBC has told clients recently that it does not believe it faced any pressure to provide funding support to LTCB as it is not a major shareholder. Its total equity exposure to LTCB is about $30m.

However, SBC appears determined to maintain the Japanese partnership in order to retain access to LTCB's client base. Matthew McGrath, an Asia spokesman for SBC Warburg, yesterday said: "We remain wholly committed to our joint ventures in Japan and stand by our alliance with LTCB."

Yesterday's market turmoil was partly triggered by large sales of LTCB shares made through LTCB Warburg, the investment banking joint venture, which prompted rumours that SBC was cutting its cross shareholding. However some traders said the sales were made for a European client.

Matthew Allen, the deputy president of LTCB Warburg, said: "It is not our policy to comment on client business. But just as we will continue to execute orders to buy LTCB stock on behalf of clients so too we will continue to execute orders to sell LTCB stock for clients, as we would for any stock."

Concern about LTCB has heightened after Japanese insurance companies indicated that they were more reluctant to make loans to banks.

A group of insurance companies is expected to decide today whether they will agree to restructure loans of Y217.5bn ($1.55bn) to Nippon Credit Bank, another long-term credit bank. However, some companies are reluctant to agree to NCB's request, which may delay a decision. NCB denies it would face funding problems without a rescheduling agreement. Its shares also fell Y4 yesterday to close at Y122.

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Abdusalam Abubakar, Nigeria's new leader, at his swearing-in ceremony yesterday. Page 4. Editorial Comment, Page 13

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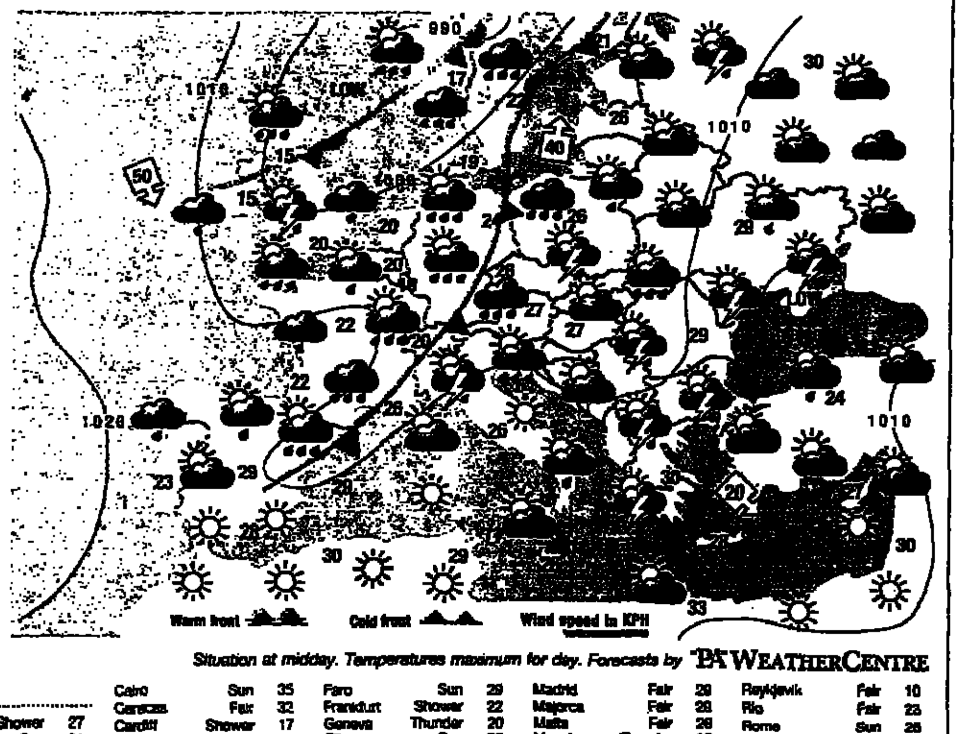
FT WEATHER GUIDE

Europe today

Scandinavia will be breezy, with showers or longer rainy periods. From Germany through the Alps to north-east Spain, there will be heavy showers with thunderstorms. Northern Spain will have lighter rain, but the rest of the Iberian peninsula and much of the Mediterranean will have sunshine. Heavy showers or thunderstorms across eastern Europe, the Balkans, Greece and the northern and western Black Sea will die away.

Five-day forecast

Eastern and south-eastern Europe will have heavy showers and thunderstorms returning by Saturday as they move away from central and western areas. The rain around the Alps will be very heavy. The north and north-west will stay unsettled, but the Iberian peninsula and much of the Mediterranean will have sunshine.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	39
Accra	Fair	30
Algiers	Sun	30
Amsterdam	Shower	20
Athens	Thunder	30
Atlanta	Thunder	31
B. Aires	Shower	14
B.ham	Shower	17
Bangkok	Cloudy	35
Barcelona	Shower	27
Beijing	Sun	31
Belfast	Rain	14
Belgrade	Fair	27
Berlin	Shower	24
Bermuda	Shower	25
Bogota	Cloudy	18
Bombay	Thunder	34
Brussels	Shower	20
Budapest	Thunder	27
C.hagen	Shower	19
Cairo	Sun	35
Caracas	Fair	32
Cardiff	Shower	17
Casablanca	Fair	24
Chicago	Fair	23
Cologne	Shower	22
Dakar	Fair	28
Dallas	Thunder	33
Delhi	Sun	34
Dubai	Sun	41
Dublin	Rain	15
Dubrovnik	Fair	27
Edinburgh	Rain	15
Faro	Sun	29
Frankfurt	Shower	22
Geneva	Thunder	20
Gibraltar	Sun	28
Glasgow	Rain	15
Hamburg	Shower	20
Helsinki	Rain	21
Hong Kong	Rain	26
Honolulu	Sun	31
Istanbul	Fair	26
Jakarta	Fair	33
Jersey	Shower	17
Johannesburg	Sun	14
Karachi	Sun	37
Kuwait	Sun	47
L. Angeles	Fair	20
Las Palmas	Fair	27
Lima	Cloudy	23
Lisbon	Fair	23
London	Shower	20
Lux.bourg	Shower	19
Lyon	Thunder	22
Madeira	Fair	24
Madrid	Fair	29
Majorca	Fair	28
Malta	Fair	28
Manchester	Thunder	16
Manila	Thunder	34
Melbourne	Fair	17
Mexico City	Thunder	33
Miami	Thunder	32
Milan	Fair	28
Montreal	Sun	25
Moscow	Fair	30
Munich	Shower	28
Nairobi	Thunder	26
Naples	Fair	29
Nassau	Fair	32
New York	Shower	22
Nice	Fair	26
Nicosia	Sun	27
Oslo	Rain	17
Paris	Shower	22
Perth	Shower	18
Prague	Fair	28
Rangoon	Thunder	31
Reykjavik	Fair	10
Rio	Fair	23
Rome	Sun	28
S. Frsco	Fair	20
Seoul	Rain	27
Singapore	Fair	30
Stockholm	Shower	22
Strasbourg	Thunder	23
Sydney	Fair	17
Tangier	Sun	28
Tel Aviv	Sun	30
Tokyo	Rain	27
Toronto	Rain	23
Vancouver	Shower	16
Venice	Sun	28
Vienna	Fair	27
Warsaw	Fair	28
Washington	Rain	22
Wellington	Fair	13
Winnipeg	Shower	21
Zurich	Shower	24

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

WIND wins licence for Italy's third mobile phone service

WIND, the consortium formed by Enel, the Italian *state-owned electricity* company, France Telecom and Deutsche Telekom, has won the licence to provide Italy's third mobile telephone service, the Italian government announced. WIND fought off competition from two other international consortia, including British Telecom, to be named as the organisation that will compete against Telecom Italia mobile (TIM) and Omnitel in one of the *world's fastest growing mobile telephony* markets.

Potential bidders eye Lonrho Africa

It was no surprise that a *group of possible* predators for Lonrho Africa has emerged only a month after the group gained independence from its parent company. However, despite interest from associates of George Soros (left), the high-profile investor, and others, a bid for the odd collection of sub-Saharan motor dealerships, breweries and game lodges may not come quickly. **Page 21**

Brussels to back set-aside increase

The European Commission is expected to back proposals for an increase in the amount of arable land to be taken out of production next year in an effort to curb an expansion in grain stocks. It will consider a "set-aside" level of 10-12 per cent, compared with the existing 5 per cent. **Page 26**

Markets ease before G7 meeting

Financial markets were uncertain before today's testimony of Alan Greenspan, Federal Reserve chairman, to Congress and a G7 meeting in Paris. Europe's markets lost sight of the record levels they recorded on Monday, although the declines in Frankfurt and Paris were modest. **Page 36**

USAA in $450m hurricane bonds sale

A nascent market in catastrophe-linked securities benefited from an injection of investor enthusiasm as USAA, one of the biggest residential insurers in the US, negotiated the sale of $450m in hurricane bonds. The sale is the second by USAA. **Page 24**

Europe's aluminium imports grow

Aluminium production in western Europe could not keep pace with demand last year, leaving a bigger gap than ever to be filled by imports, according to European Aluminium Association statistics. The EAA said the gap may widen in 1998. **Page 26**

Spin-off fails to help Great Lakes

Great Lakes Chemical, the Indiana-based group, never made clear how its spin-off of Octel, its lead additive unit, would benefit its shareholders. The market values the two companies apart exactly as it valued them together and the group still has to prove it can enhance shareholder value. **Page 17**

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MARKET STATISTICS

Network Associates in merger

Software security group agrees $642m UK purchase

By Christopher Price in San Francisco and Paul Taylor in London

Network Associates of the US agreed the $642m purchase of Dr Solomon's Group of the UK yesterday in a deal that will create one of the largest network security software groups in the world.

The deal highlights the consolidation under way in the dynamic, anti-virus software market in which the rise of the internet and spread of computer systems has spawned a new generation of computer viruses. There are some 19,000 known strains. Experts estimate that hundreds more are being written every month.

The move also reflects the attention the large computer groups, such as International Business Machines, are paying to the market.

Network Associates was formed a year ago out of the merger of McAfee Associates, another anti-virus software company, and Network General, both of the US.

Network Associates said the purchase would strengthen its position in the computer security market in Europe, where the UK group is the dominant rival to Symantec.

Bill Larson, chairman and chief executive of Network Associates, said there would be some overlap between the two companies' products, but this was outweighed by geographical and technological benefits.

He added that the UK group's leading product, Dr Solomon's Toolkit, would be used as part of Network Associates' enterprise security suites, an integrated software system incorporating anti-virus, encryption, authentication, firewall, intrusion detection and scanning technology.

Network Associates is keen to push into the network management market where it sees security products as just one of a suite of management tools. This market is dominated by IBM's Tivoli unit and Computer Associates with its TNG Unicenter software.

Network Associates said the all-share acquisition of Dr Solomon's, which is listed on the Brussels-based Easdaq and US Nasdaq stock markets, would incur an undisclosed charge in the group's third quarter.

It would also be "modestly dilutive" to that quarter's earnings. Following the deal, Dr Solomon's shareholders will have an 11.7 per cent interest in Network Associates. Geoff Leary, chief executive of Dr Solomon's, said it had not been decided which if any of the UK group's executives would stay on.

Dr Solomon's anti-virus software was originally developed by a husband and wife team, Alan and Susan Solomon, who sold their company, SS International, in a management buy-out in February 1996.

SS International's first sales in 1984 were software packages that Mr Solomon wrote in the evenings while working as an oil-sector analyst at stockbrokers Laing & Cruickshank. Mrs Solomon marketed the products part-time during the day while looking after a baby.

US Bancorp in $2.5bn buy-back

By John Authers in New York

US Bancorp, the Minneapolis-based bank, yesterday announced a $2.5bn share buy-back, equivalent to more than 8 per cent of its shares outstanding, in an attempt to demonstrate to the market it would not be harmed by its failure to buy Wells Fargo of San Francisco.

Norwest, another Minneapolis bank, announced on Monday it was acquiring Wells Fargo in a stock swap valued at about $31.2bn.

The US Bancorp announcement led to a day of hectic trading in US bank stocks and renewed speculation that more large regional banks will need to announce mergers as the consolidation of US commercial banks reaches an "end game".

US Bancorp, with $70.9bn in assets at the end of the first quarter, had long been linked with Wells Fargo, which many analysts saw as a natural partner.

By announcing the buy-back, John Grundhofer, US Bancorp's chief executive, in effect, ended speculation he might launch a hostile counter-bid for Wells Fargo. He also appeared to rule out any mergers of equals for the near future. He said: "We are repurchasing stock because of our confidence in the earning power of the new combined US Bancorp, which we expect will generate capital in excess of our needs."

US Bancorp's share price was up $⅜ at $40⅛ – against the midsession trend for the banking sector. Wells' shares were down $17¾, or almost 5 per cent, at $348. Norwest's share price fell heavily for the second day running, and by midday stood at $35½, down 3.5 per cent for the day. Before the Wells deal was announced, it stood at $39⅜. Washington Mutual, the nation's largest savings bank – and seen by some analysts as a possible acquisition target for a bank looking for a branch network in California – fell heavily.

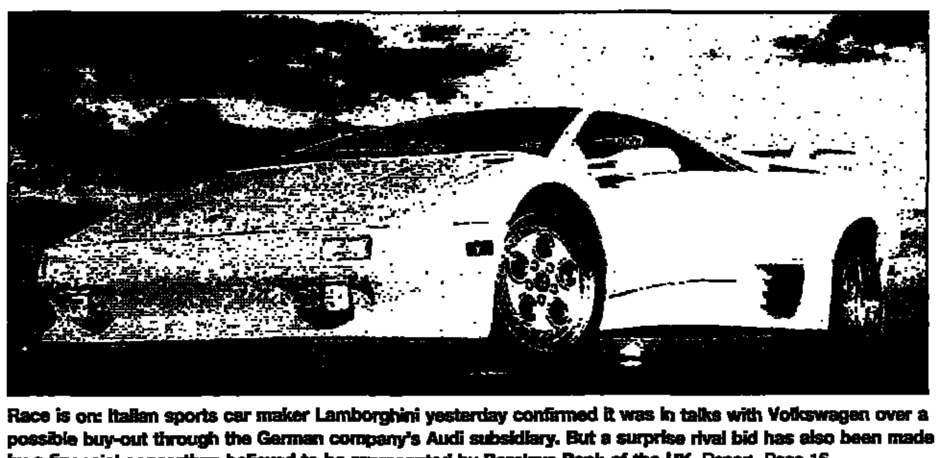
US Bancorp's move came as speculation intensified that a range of large regional banks would need to make mergers in a bid to gain critical mass. This year's series of big bank mergers will create a group of seven US banks with assets of $190bn or more. Apart from Bankers Trust, no other bank has assets of as much as $100bn. All of the banks with assets in a range between $60bn and $100bn are now under pressure to do deals. The logic is that they could create national franchises.

Top US banks, by asset size

	Total assets March 31, 1998 $bn
Citigroup [1]	738.9
BankAmerica [2]	579.9
Chase Manhattan	365.7
JP Morgan	271.5
Banc One [3]	240.5
First Union [4]	220.4
Wells Fargo [5]	190.9

1. Includes Citicorp's merger with Travelers
2. Includes merger with NationsBank
3. Includes acquisition of First Commerce and merger with First Chicago NBD
4. Includes acquisition of CoreStates Financial
5. Includes merger with Norwest

Source: SNL Securities LC



Race is on: Italian sports car maker Lamborghini yesterday confirmed it was in talks with Volkswagen over a possible buy-out through the German company's Audi subsidiary. But a surprise rival bid has also been made by a financial consortium believed to be represented by Barclays Bank of the UK. Report, Page 16

Liffe members vote heavily in favour of electronic trading

By Edward Luce

Members of the London International Financial Futures and Options Exchange voted overwhelmingly last night in favour of overhauling the exchange and introducing electronic trading.

In a surprisingly one-sided result, Liffe's 207 members delivered a 98 per cent majority in favour of reform. The vote will result in the overhaul of the world's second largest derivatives exchange. It is the latest in a series of developments at Liffe and other exchanges in the multi-billion dollar derivatives market.

"This is an overwhelming majority which gives us an unequivocal mandate for change," said Daniel Hodson, chief executive of Liffe. "It also vindicates the courageous decision of the board of directors to propose the changes."

The vote completes a dramatic three months for Liffe during which it transformed itself from a diehard defender of the traditional "open outcry" floor trading system to an institution that yesterday embraced electronic trading.

The move, which brings Liffe into line with its more recently-established continental competitors, leaves Chicago's two exchanges as the last remaining proponents of open outcry trading in the derivatives market. Both exchanges are believed to be making contingency plans for a rapid shift to day-time electronic trading.

Liffe's transformation was triggered by panic following the success of the Deutsche Terminbörse, Liffe's German rival, in winning majority market share in Liffe's most prestigious derivatives contract, the future on the German government bond. It has also included dramatic changes to Liffe's ownership structure.

Under yesterday's proposals Liffe will now change from a mutual-like structure based upon the interests of its members to a normal profit-seeking commercial company.

The exchange will encourage outside shareholders to take a stake in the company and sever the link between membership and trading permits. on its electronic platform. Electronic trading, which is considered to be much cheaper than open outcry, will be introduced for equity options in November and for all other contracts by mid-1999.

Liffe's board, which is due to appoint a full-time chairman in the next few weeks, has yet to decide whether to list contracts simultaneously on its electronic and open outcry system. Experience at Matif, the French exchange, suggests that the days of open outcry on Liffe are numbered. Last week Matif closed its trading floor just seven weeks after introducing its electronic platform.

Banks plan to bring derivatives to forex

By George Graham, Banking Editor

A group of leading international banks is to test a new set of currency indices that could dramatically change the way the $1,200bn a day foreign exchange market works.

If the indices win wide acceptance, banks could switch to trading foreign exchange through derivative contracts, instead of as cash.

Bankers draw a comparison with the commodity markets, where traders deal in futures contracts for bushels of wheat or barrels of oil, but for the most part never take delivery of the underlying commodity.

Such a system would sharply reduce the amounts banks have to pay each other to settle their currency deals.

In today's foreign exchange market, a bank might agree to sell $100m in return for DM175m. To settle the trade, it would pay over the entire $100m, while its trading partner would in turn pay the entire DM175m.

Because of the huge sums involved central bankers fear that any disruption in foreign exchange settlements could bring down even the largest international bank.

Under the new initiative, banks that do not require cash delivery could instead trade a derivative called a contract for difference, or CFD. They would settle by paying or receiving only the difference between their contract price and a benchmark exchange rate.

But the development of a CFD market requires widespread acceptance by banks of that benchmark.

The British Bankers Association, which already calculates the Libor interest rate benchmarks, is working with Reuters on a set of indices for major currencies which will be piloted for the next three months. The BBA will test two indices, one produced by a panel of banks and the other by a panel of brokers, to see if the two diverge.

A bank that actually needed D-marks could still trade in cash. But, according to Chase Manhattan, one of the leading banks behind the initiative, such transactions account for less than 5 per cent of global foreign exchange turnover.

Japanese banks have shown great interest in an idea that would allow them to resume trading with those suspicious about their creditworthiness.

BARRY RILEY

This year's model boosts UK pension schemes

Odd things happen when you make short-term decisions about how to value long-term contracts.

For instance, it is little more than 12 months since Britain's actuaries persuaded the government to adopt a particular asset valuation formula for the Minimum Funding Requirement, imposed through new pensions legislation. The formula (a kind of dividend discount model) was intended to establish a stable, long-term framework, but was almost immediately sabotaged by last July's Budget, which imposed tax on dividends received by pension funds.

As a result, some finance directors have recently been warned of a collapse of their pension schemes' MFR solvency, in spite of soaring asset prices. True, the strength of asset prices has been balanced by growth in the present value of the liabilities, given that these must be discounted at rates reflecting the collapse in long-dated gilt-edged *yields from* 7.3 *to* 5.7 per cent in just over a year.

But for UK equities a dividend-based equity valuation model now makes little sense in these days of share buy-backs, which could amount to half the cash aggregate of conventional dividends this year. So the formula has been only temporarily patched up, through a different market value adjustment, which will reduce the required rate of return on equities for these statutory purposes (thus improving fund solvency against the MFR benchmark).

Meanwhile standardisation of scheme valuations is still elusive. The 1998 Coopers & Lybrand survey of assumptions reveals, as previously, a wide variety of actuarial opinion. If the average actuary can be said to require £100 ($164) of funding, the most cautious will recommend £142 and the most optimistic (possibly one leaning over furthest backwards to help an overstretched client) just £71.

Is the latter actuary, however, *really* all that starry-eyed? The median assumption, after all, is that the real return on investments will be just 4¼ per cent. This is only *half* the actually achieved real return of 8¾ per cent over 20 years. But actuaries are trying to draw a cautious line between two contradictory *schools of thought: that* relevant past returns should be extrapolated, or that the recent high historical returns are not only unsustainable, but must be offset by low (and even, for a while, negative) future returns.

In practice, UK schemes continue to rebalance away from high-returning equities, though only slowly. Detailed returns for the January-March quarter from the WM Company show that for 1,225 funds (a sample representing about half the sector's assets) £3.1bn was taken out of equities and some £2.7bn transferred *into bonds*.

Altogether, with overseas equities being bought, as much as £4.5bn net was shifted out of UK equities, implying near £9bn for all pension funds. This may not have represented investment decisions, though, so much as a passive response to the aggressive bidding for stock by corporates through takeovers and buy-backs.

Actuarial caution suffers robust criticism from Philip Isherwood, UK equity strategist at Dresdner Kleinwort Benson. UK pension funds admit to a surplus of £100bn within £800bn of assets. Mr Isherwood says that on the basis of equity returns over 25 years the surplus is £170bn, and a repeat of the last decade would imply £325bn. Perhaps investors, and managements, are being seriously misled *about the real cost of pensions*.

Coopers & Lybrand's John Shuttleworth says that, against the standard £100, the fund required on the basis of 25 years of equity returns would be £80, and for the last decade it would be just £23.

We must not be too hasty. In about 50 years we shall be able to say, tentatively, what the right answer is.

FOOD FINNISH GROUP TO PUBLISH SEPARATE FIGURES FOR NEW MARGARINE TIPPED TO BECOME MARKET LEADER

Raisio to split off results for Benecol

By Greg McIvor in Helsinki

Raisio, the Finnish food and chemicals group, will today for the first time disclose separate financial results for Benecol, the cholesterol-cutting margarine tipped to become an international best-seller.

The announcement, to coincide with the publication of four-month profits, will split Benecol sales and operating figures from Raisio's margarine division, which accounted for one-third of the company's FM4.95bn ($916m) turnover last year.

Raisio has encountered criticism from some investors over the lack of financial data about Benecol's performance in Finland, the only market in which it is sold.

Raisio shares have risen 16-fold since Benecol was launched in late 1995. The margarine sells at seven times the price of ordinary spreads and has a 12.5 per cent share of the Finnish market.

The figures to be unveiled today will include sales and operating profits for Benecol as well as details of the first down-payment by McNeil, a subsidiary of Johnson & Johnson of the US, which is the worldwide licensee for Benecol.

Financial terms behind the J&J collaboration have been kept secret after the two signed an agreement over North American rights one year ago. This was broadened in March into a worldwide venture.

It is known, however, that J&J has contracted to pay royalties and "milestone" payments to Raisio based on Benecol sales. Under the agreement, Raisio sells stanol ester – the plant-based, cholesterol-lowering ingredient in Benecol – to J&J.

Tor Bergman, Raisio deputy chief executive officer and head of the Benecol unit, said plans were under way to launch a "palette" of Benecol products in the US by the end of this year, assuming approval from the US Food and Drug Administration.

Stanol ester can be used in any fat-containing food. In addition to margarine, likely products include salad dressings, cooking oil and yoghurt.

Mr Bergman hinted that a range of Benecol products could also be introduced in main European markets around the end of this year, depending on regulatory approval.

He shrugged off the challenge from other companies, including Unilever, which are attempting to develop products with similar properties to Benecol.

"The fact that other companies are trying to enter the market proves that we are on the right track," he said.

Mr Bergman added that Raisio had a lead of about two years over any rival and stressed that stanol ester, produced from plant sterols, enjoyed strong patent protection.

Volvo appoints new US car chief

By Tim Burt in Stockholm

Volvo, the Swedish automotive group, yesterday said it was replacing the head of its US car operations in an attempt to bolster its marketing efforts in North America.

The company, which sells about 100,000 cars a year in the US, announced that Helge Alten would be standing down after three years as president of Volvo Cars in the region.

Mr Alten, credited with overhauling Volvo's dealership network in North America, is to become managing director of Volvo Ocean Race, the four-yearly round-the-world yacht race previously sponsored by Whitbread, the UK brewer.

Volvo recently paid up to SKr100m for sponsorship rights to the race.

The group's car sales in North America totalled about SKr30bn ($3.8bn) last year – more than 25 per cent of the car division's total turnover.

Although Volvo denied Mr Alten's move was a demotion, officials admitted yesterday that Leif Johansson, group chief executive, hoped for a more aggressive sales and marketing drive.

"Leif wanted someone more experienced in that part of the business," a senior official said.

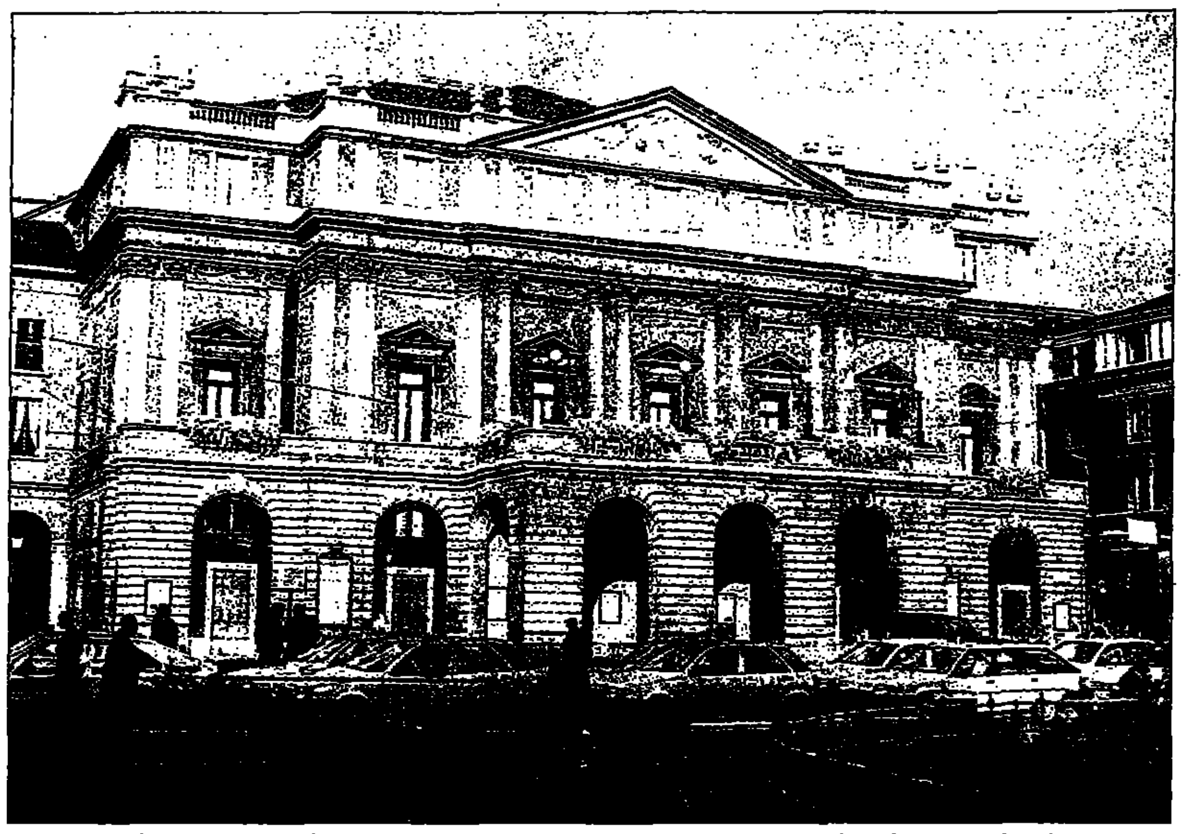
Mr Alten is being replaced by Hans Olov Olsson, current president of Volvo Cars in Europe. He has been charged with lifting Volvo car sales in the US by one-third, to 150,000 units a year.

Mr Olsson will also oversee the launch of Volvo's mid-range S40/V40 cars in North America and the first sales of its new S80 large car, unveiled in Sweden last month.

He has also been asked to increase exclusive Volvo dealerships in the US, where the company hopes to lift operating margins from 4 per cent to 7 per cent.

Stubborn BCI rewrites rules in Italian banking

Rejection of merger with Banca di Roma highlights changes in the sector, writes **Paul Betts**



Milan's Piazza della Scala, where BCI's headquarters opposite the famous opera house, La Scala (above), has been likened to Fort Alamo

Banca Commerciale Italiana's monumental headquarters in Milan's Piazza della Scala, just across the square from the famous opera house, has been likened in recent months to Fort Alamo.

Since early January, BCI has been under siege. A formidable lobby including the government, the Bank of Italy and the bank's own traditional allies – Mediobanca, the secretive and influential banking institute only 200 metres away behind La Scala, and Assicurazioni Generali, the country's largest insurer – sought to force it into a shotgun wedding with Banca di Roma.

The plan was to create the country's largest banking group with combined assets of more than L400,000bn ($228bn) at the same time as resolving the problems at the big Rome banking group, which is in the throes of restructuring but still burdened by a non-performing loan portfolio of more than L10,000bn.

At the end of last week, Cesare Geronzi, Banca di Roma's chairman, threw in the towel. He wrote to Luigi Fausti, his opposite number at BCI, blaming him for the collapse of the merger plan. Inside BCI there was jubilation. Mr Fausti, a veteran BCI career man until now not considered a particularly tough negotiator, was given a standing ovation by staff.

A few years ago, the events of the last days would have been unthinkable. The sheer pressure of the Rome establishment combined with the big guns of Italian finance and business would have forced Mr Fausti to capitulate. The fact he successfully resisted intense political and financial arm twisting is a sign of how Italian capitalism is changing.

At the end of the day, BCI considered the merger to be against the interests of the privatised bank and its shareholders.

Privatisation, the advent of European monetary union, and the globalisation of financial markets have inevitably undermined the old Italian power networks and their fortress-like mentality. None more so than Mediobanca, which has seen its influence wane in the past three years following a string of fiascos, starting with its efforts to create a new industrial holding with its "Super-Gemina" project, the subsequent collapse of the attempted merger of Marzotto with the HDP holding, and now with the BCI-Banca di Roma deal.

Mediobanca has faced growing internal turmoil. The defection of Gerardo Braggiotti, one of its brightest investment bankers who a few years ago had proposed a merger of BCI, Banco di Roma and Credito Italiano to Lazard Frères, has led to tensions between the Milan bank and its once close ally Lazard. Even Enrico Cuccia, the bank's 90-year-old honorary chairman, described as Italy's most powerful post-war banker, no longer gets his own way. Last week he flew to Rome for a meeting with Romano Prodi, the prime minister, that did little to unsettle Mr Fausti's resolve against the Banca di Roma merger.

The collapse of the deal is widely regarded as a defeat for Mediobanca. Apart from bolstering its dwindling position at the heart of Italian finance, the merger would have safeguarded Mediobanca's shareholding structure since Banca di Roma and BCI control between them about 16 per cent of the Milan investment bank.

Its third main shareholder, Credito Italiano, has increasingly distanced itself.

The Bank of Italy and the government were keen on the merger because it would have consolidated the turnround at Banca di Roma and eased their concerns over the still fragile financial situation in central and southern Italy.

If BCI appears to have won one battle, it has not yet won the war. At the end of the 1980s, BCI was widely regarded as the country's best and most international commercial bank and Credito Italiano was considered its poor sister. But in the past few years Credito Italiano has overtaken its old rival.

BCI, although remaining profitable, was slow to adapt to the changing circumstances in the financial markets. It failed twice to take over other banks based in the country's rich north – first Ambroveneto, then the Cariplo savings bank, which ended up merging with Ambroveneto.

Its hesitance and lack of direction left it on the sidelines as competitors leapt into bed with each other.

Mr Fausti says he wants to acquire some smaller northern banks. But the competition is intense. BCI could build its relationship with Assicurazioni Generali, currently interested in acquiring the Lugano-based Banca della Svizzera Italiana, or it could accelerate the long touted merger with Mediobanca, which would become BCI's investment banking arm. It could also be lured into one of the new enlarged banking groups.

Nor can one rule out another stab at a Banca di Roma merger. Giorgio Brambilla, Banca di Roma chief executive, said on Friday his bank was in much better shape, with gross earnings rising by 120 per cent in the first five months of this year to L1,150bn. He conceded the proposed deal with BCI was now "closed", but he added that "if someone wants to open it again we will not act as offended virgins".

As long as Mr Fausti dons his Davy Crockett hat, the chances are extremely slim.

Telekom to pilot ADSL data service

By Ralph Atkins in Bonn

Deutsche Telekom, the German telecoms giant, is to launch a pilot high-speed data service from Monday that will enable it to to steal a march on other national carriers in multimedia.

The technology, called ADSL (Asymmetric Digital Subscriber Line) technology, could speed the transformation of the industry and opens up the telephone network to video-on-demand and other multimedia services.

Although other telecoms groups have launched small-scale ADSL trials, Deutsche Telekom said yesterday it saw its pilot as a precursor to a national roll-out.

The German group sees the new high-speed links as a supplement – rather than a threat – to its existing integrated digital services network (ISDN) which it has invested billions of D-Marks in recent years. It also argued that ADSL can run alongside its extensive but lossmaking conventional cable television activities.

Ron Sommer, Deutsche Telekom chairman, said the goal was to open the new generation of digital services "to the mass market".

Gerd Tenzer, board member with responsibility for networks, added: "We expect that by the start-up phase at the beginning of next year several tens of thousand customers will be taking advantage of our ADSL offer – by the end of next year, up to 100,000."

After the pilot tests with 100 business and 350 private customers in North Rhine Westphalia, northern Germany, Deutsche Telekom will from this year offer the new service in eight cities: Hamburg, Berlin, Düsseldorf, Cologne, Bonn, Frankfurt, Stuttgart and Munich.

ADSL technology allows the transmission of up to 8mbps to customers and up to 768kbps in the opposite direction. That compares with up to 128kbps on an normal ISDN connection, which consists of two 64kbps lines.

Deutsche Telekom believes it has a big advantage over US telecoms groups because of the relatively short distance between its local exchanges and customers. This means Deutsche Telekom can offer almost all its customers transmission speeds of 6mbps or more; in the US the maximum would be about 1.5mbps.

ADSL has considerable benefits over other competing "broadband" technologies because it uses standard copper-wire networks which can be upgraded at relatively low cost. The main investment would be in expanding "backbone" networks between switching stations.

Gazprom urges $1bn sell-off

By John Thornhill in Moscow

Gazprom, Russia's biggest company, is pressing the government to sell a further shareholding in the gas group to a western strategic partner for $1bn.

It would rank as the biggest equity offering from a Russian company this year.

Rem Vyakhirev, Gazprom chairman, said the sale of the 2-3 per cent stake would bolster the government's stretched finances and strengthen the company's relationships with western energy groups.

Gazprom has already forged strategic alliances with Royal Dutch/Shell and ENI of Italy, and exerts considerable influence over the government as Russia's largest hard currency earner.

Mr Vyakhirev said Gazprom, 40 per cent-owned by the government, had been negotiating the deal for more than two months but he was not certain it would materialise.

Nikolai Arutyunov, gas industry analyst at Brunswick Warburg, the Moscow-based stockbrokers, suggested the move could be part of a broader battle between Gazprom and the government over the company's outstanding tax bill.

"Gazprom may be hinting that instead of squeezing tax arrears out of [it], the government could place a 2 per cent stake instead," he said.

Mr Vyakhirev said yesterday that Gazprom remained interested in buying the government's 75 per cent shareholding in Rosneft, the last big state-owned oil group, in spite of the sharp falls in the international oil price. Gazprom had earlier formed a consortium with Lukoil, the giant Russian oil group, and Shell to bid for Rosneft.

The government has reduced the starting price for Rosneft from $2.1bn to $1.6bn after its first attempt to sell the company collapsed without receiving a bid.

Volkswagen talks to Lamborghini

By Haig Simonian and Clay Harris

Volkswagen is in talks to buy Lamborghini, the Italian sports car maker, through its upmarket Audi subsidiary, it was confirmed yesterday. But VW's plan to broaden its luxury car portfolio after last week's agreement to buy Rolls-Royce Motor Cars from Vickers is not the only bid to have been considered in recent days by the Italian company.

A financial consortium, involving Barclays Capital, the investment banking division of Barclays Bank, was in talks with Lamborghini as recently as late last week. The rival offer, however, was withdrawn because certain conditions which the Barclays consortium had asked for could not be met.

A Lamborghini board meeting scheduled for last week was postponed.

Lamborghini is controlled by Hutomo "Tommy" Mandala Putra, the youngest son of Indonesia's former president Suharto, with 60 per cent of the shares. The remainder are held by Mycom of Malaysia.

In recent weeks, representatives for Mr Mandala Putra have issued contradictory statements about his plans. Last week, Mycom issued a statement to the Kuala Lumpur Stock Exchange confirming talks to sell its holding. Trading in Mycom shares has been suspended.

The erstwhile rival bidder is believed to have been interested in releasing the value of the brand, possibly via a flotation.

Audi's involvement started late last year after Lamborghini approached it as a possible source of V8 engines for the planned new "Baby Diablo" sports car. The talks with Audi gathered pace to include a potential takeover.

While negotiations have been restricted to Lamborghini's owners and potential buyers, the company's 310 employees and union representatives have grown concerned about the impact of the uncertainty on the group, which needs funds for new products.

Thyssen Krupp eyes Cockerill

By Neil Buckley in Brussels

Germany's Thyssen Krupp is one of four potential bidders for Belgium's Cockerill Sambre, one of western Europe's last remaining large, state-dominated steelmakers, it emerged yesterday.

The Walloon region, Belgium's French-speaking southern half, which owns 78.8 per cent of the steelmaker, said four groups – Thyssen Krupp, France's Usinor, Hoogovens of the Netherlands, and Arbed of Luxembourg – had expressed interest in a partnership. The closing date is May 31.

Although the other groups had made public their interest, Thyssen Krupp confirmed yesterday only that it was considering an offer.

A link with Cockerill could transform any of the four potential partners, apart from Hoogovens, into Europe's biggest steelmaker by output.

The news pushed Cockerill Sambre's share price up 10.5 per cent on the Brussels Bourse, from BFr218 to BFr241.

The Walloon region, advised by Deutsche Morgan Grenfell, is expected to announce a shortlist by early July and a decision by September.

After a spate of link-ups in the European steel industry, Cockerill Sambre is one of the last sizeable marriage candidates. It produced 6.3m tonnes of raw steel in 1996, putting it behind behind Thyssen Krupp, British Steel, Arbed, Usinor, Italy's Riva, and Hoogovens.

The Belgian group is undergoing a restructuring aimed at cutting costs by BFr10bn ($270m) a year, including reducing the 10,000 workforce by 2,000. The plan helped it recover from BFr9bn losses in 1996 to a BFr3bn net profit last year.

Separately, Francis Mer, chairman of Usinor, yesterday told the company's annual meeting the steelmaker was likely to double net profits to FFr1.6bn ($268m) in the first half.

See Lex

POWER SPANISH GROUP'S STOCK SLIPS 5%

Endesa shares fall as retail investors sell

By Tom Burns in Madrid

Shares in Endesa dropped nearly 5 per cent yesterday on the first day of trading after the Spanish power group's stock had been widely distributed to private domestic investors in a record-breaking Pta1,150bn ($7.6bn) privatisation.

Endesa shares *closed at* Pta3,275, a 4.93 per cent fall on Monday's close of Pta3,445 and well down on the Pta3,372 price at which the power group's stock was sold to retail investors.

Trading in the power group's shares represented half the total volume on Madrid's Bolsa and helped drag down the market's general index by 2.37 per cent.

The price to retail investors represented a 3 per cent discount on the weighted trading average of Endesa's stock during Monday's Bolsa session, and the flowback of shares suggested that many retail investors had acquired more Endesa equity than they had bargained for.

The issue price to institutions was set at Pta3,400 and, *on yesterday's share performance*, the co-ordinators of the offer could now face difficulties in placing some 81.5m shares which represent the "greenshoe", or over-allotment tranche, of the disposal.

Sepi, the government agency which put 33 per cent of Endesa on the market, finally allocated 79.8 per cent of the initial offer, or 245m shares, to private investors *after twice revising the offer* structure in order to offset a disappointing response from institutions.

Some 1.4m Spaniards were estimated to have purchased Endesa shares in the privatisation.

However, brokers said that the reported high demand by retail investors was deceptive.

"Individuals put in bids for Endesa shares *totalling* Pta5m but they only really intended to invest a tenth of that and were confident that their bids would be severely scaled back by excessive demand," said Juan Bastos, managing director of Ibersecurities, a Madrid Bolsa firm.

Analysts believe that institutions will absorb the sales by small investors as the *share price drops* to attractive levels.

NEWS DIGEST

TELECOMMUNICATIONS

Former finance minister to head Tele Danmark

Henning Dyremose, a former minister of finance, was yesterday named chief executive of Tele Danmark, the national telephone company controlled by Ameritech, the US telecoms company. Mr Dyremose will succeed Hans Wurzen, who left at short notice in January to become a judge.

Knud Heinesen, chairman of the supervisory board, said Mr Dyremose was chosen for his business acumen and not because of his former political career. Mr Dyremose, 52, is the first Tele Danmark chief executive to come from the private sector. He was managing director of Dalhoff Larsen & Horne-*mann, which operates a chain of building material retail stores* and trades timber in 22 countries. He promised to increase the group's turnover and earnings by providing the best and cheapest services. **Hilary Barnes, Copenhagen**

ISRAEL

State to cut stake in Bezeq

Israel will reduce its stake in Bezeq, the state-controlled telecoms company, by a further 20 per cent, bringing its holding to 35 per cent. Tzipi Livni, head of the government companies authority responsible for privatisation, yesterday said she intended to press ahead with either block sales or an international listing during the next 12 months. The shares would not be sold on the Tel Aviv Stock Exchange because demand would be insufficient.

The sale could yield up to Shk1.7bn ($464m) given Bezeq's current market capitalisation of about Shk8.5bn. The shares ended down Shk0.2, or nearly 2 per cent, at Shk11.59.

Bezeq's big shareholders include Cable and Wireless, the UK telecoms group which owns 12.75 per cent, Merrill Lynch, the US investment bank, which holds 6 per cent, and Israel's Dovrat-Shrem investment group, which recently brought 3 per cent. Last year, Bezeq reported net losses of Shk222.7m on sales of Shk8.7bn after a Shk1bn charge for restructuring. For the first quarter of this year, it reported net profits of Shk129m. **Judy Dempsey, Jerusalem**

BREWING

Heineken in Polish buy

Heineken, the Dutch brewer, has expanded its share of Poland's beer market to more than one-third through a takeover of the Australian-owned Elbrewery. It already controls Zywiec, a listed brewery in southern Poland which has about 12 per cent of the market, and yesterday's agreement to acquire just over half of the equity in Elbrewery will add another 22 percentage points. Total sales volume of the breweries included in the deal was just under 7m hectolitres last year, which *would make the group one of the largest in Heineken's* international organisation.

Heineken, which was advised by CSFB, has agreed initially to buy a 9.6 per cent stake in Elbrewery and will increase its holding by stages to 50 per cent plus one share. The value of the deal was not disclosed. **Christopher Bobinski, Warsaw**

UTILITIES

Suez Lyonnaise expands in US

Suez Lyonnaise des Eaux, *the French utilities group*, has jointly won the water treatment contract for Gary, Indiana, in a deal with an annual turnover of $100m. The operation, via United Water Services, its US operation, will be jointly operated with the Indianapolis Water Company, and represents the third such contract the French group has won over the *past few months. The* contract will last for 10 years, allowing for investment as well as maintenance of the existing system.

United Water is 28 per cent owned by Suez Lyonnaise des Eaux, and has won contracts in Indianapolis last November and in Milwaukee in January this year.

■ Vivendi, the rival French utilities group, has taken a stake in the privatisation of Sanepar, the Brazilian water group, for FFr390m ($65m). **Andrew Jack, Paris**

Great Lakes has yet to prove the chemistry is right

In spite of spinning off its lead additive unit, Octel, the group has failed to enhance shareholder value, writes **Jenny Luesby**

When something as fashionable as a demerger within the chemicals industry is received with the dismay that greeted the spin-off of Octel by Great Lakes Chemical, all eyes turn to the quality of the helmsmanship.

Octel makes the lead in petrol. Banned in new cars in Europe and North America, ahead of a complete phase-out, the product's market has halved since 1990. But it still accounts for 85 per cent of Octel's sales.

The company now predicts the market will contract by *up to 15 per cent a year for* the next five years and prices will also fall.

Faced with this unsavoury future, Great Lakes, based in Indiana, last July announced Octel's spin-off. What was never made clear was how the separation could improve matters – most notably for shareholders.

At the time, Great Lakes' own share price had fallen to *below $47, from nearly $69* at the beginning of 1996, when lead additives accounted for more than half of its $2.2bn of annual sales. The division's decline had triggered repeated profit downgrades.

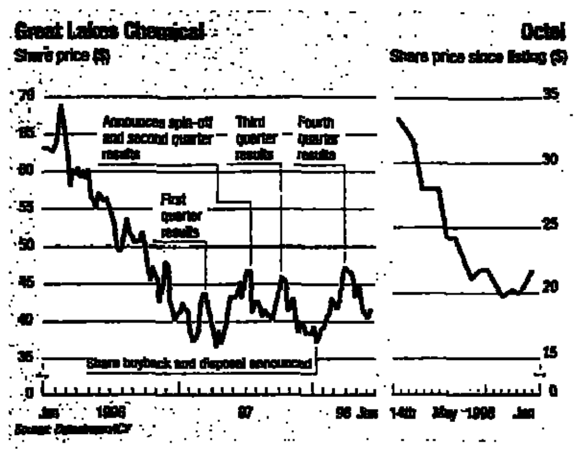
The over-riding motivation for the industry's recent spate of demergers has been the separation of rising businesses from their declining siblings.

But while this has seen cyclical or even loss-making businesses gain their independence, it has not marked the launch of another business facing a dead-end for health reasons.

Dennis Kerrison, Octel's chief executive, insists opportunities still remain. The bans on lead additives, prompted by evidence that they cause brain damage, have not yet extended to *south-east Asia, the Middle* East and Africa.

"Developing these markets promises us more than sufficient cash flow for at least the next eight years," he says.

But the appointment of Mr Kerrison has in itself done little to enhance investors' faith in the company. In his last job as chief executive, Mr Kerrison oversaw Hick-*son of the UK, a former* favourite of the City of London, through site explosions that killed five people, Unilever's cancellation of a key contract for the ill-fated catalyst for Persil Power washing powder, and, finally, the company's move into losses.



At least he can claim experience of adversity, which will be relevant. In the first month of trading, Octel's share price fell by 40 per cent, a decline which sits uncomfortably with the claim by former Great Lakes chief executive, Robert McDonald, that the split would bring valuation benefits.

Across the industry, demergers have ushered in a re-rating of higher quality businesses, pushing the sum of the resulting share prices well above the single pre-demerger price.

However, with Great Lakes' shares now trading at about $42 and Octel – which was issued as one share for every four shares held in Great Lakes – at $21, the market currently values the two companies apart exactly as it valued them together.

Mr McDonald also argued that the separation would allow each company to link executive incentives directly to performance.

Again, this reflects an industry trend. It has become normal, when floating a problematic chemicals business, to require executives to invest substantial sums in its shares, both as an act of faith and as an incentive to work for shareholders.

Octel has not put such a programme in place, it did recently discuss the desirability of voluntary executive investment.

Another benefit of the split, says Mr McDonald, would be the $346.2m special dividend payable by Octel to Great Lakes. To fund this and buy out Chevron's minority stake in Octel, the newly floated company went *out with debt of $450m.*

Analysts such as BT Alex Brown, which estimated the intrinsic value of Octel at $600m-$700m, were unimpressed by the low level of the special dividend.

Either way, there is little evidence that it has benefited Great Lakes. The company's gearing is now negligible. It has made some minor acquisitions, but its *remaining core speciality* chemical businesses are in sectors that are largely consolidated, including additives for plastics, fire extinguishers and water treatment.

In the absence of either a viable shopping list or pressing investment needs, Great Lakes bought back 15 per cent of its shares, at a cost of $730m, between 1993 and 1997. In December, when it announced further disposals, it sought authority to buy back another 6.5m shares.

However, while it is hard to see who has gained from the spin-off, which cost $17m in fees and administration, there is one way in which it has changed everything.

"The spin-off and the confusion that surrounded it served to highlight that the company had major problems. The result was a change of management," says one corporate banker.

In March, Mr McDonald retired. The new chief executive is Mark Bulriss, formerly of AlliedSignal. Viewed as talented, his move is said to have prompted a buying spree of Great Lakes stock by former colleagues.

Even with the shares now trading at the average price/earnings multiple for speciality chemicals companies, the banker believes the company offers "huge scope for improvement", which Mr Bulriss is certain to exploit.

SEMICONDUCTORS PLAN TO BOOST SALES AT LOW-COST END OF THE MARKET

Intel lowers prices to stay competitive

By Louise Kehoe
in San Francisco

Intel has cut prices of many of its microprocessor chips by 12-32 per cent and announced the introduction of several new chips over the next 12 months.

Industry analysts said the price cuts would boost Intel's competitiveness in the low-cost end of the personal computer market, while accelerating sales growth in higher-performance PCs.

Intel has typically lowered prices in the middle of each financial quarter, enabling the PC industry to offer higher-performance PCs without raising prices. The latest cuts reflect an acceleration of this process, analysts said.

However, Intel said it had been able to reduce prices because it had achieved higher production yields in a successful switch to a new manufacturing process with higher chip densities and smaller feature sizes.

Chips are manufactured from silicon wafers, about 10 inches in diameter. Each wafer typically produces hundreds of chips but as chip feature sizes shrink, more chips fit on each wafer, reducing manufacturing costs.

Intel's biggest price cut was on chips designed for use in "basic" or sub-$1,000 PCs. Prices of these chips, called Celeron, were lowered by 32 per cent to $106.

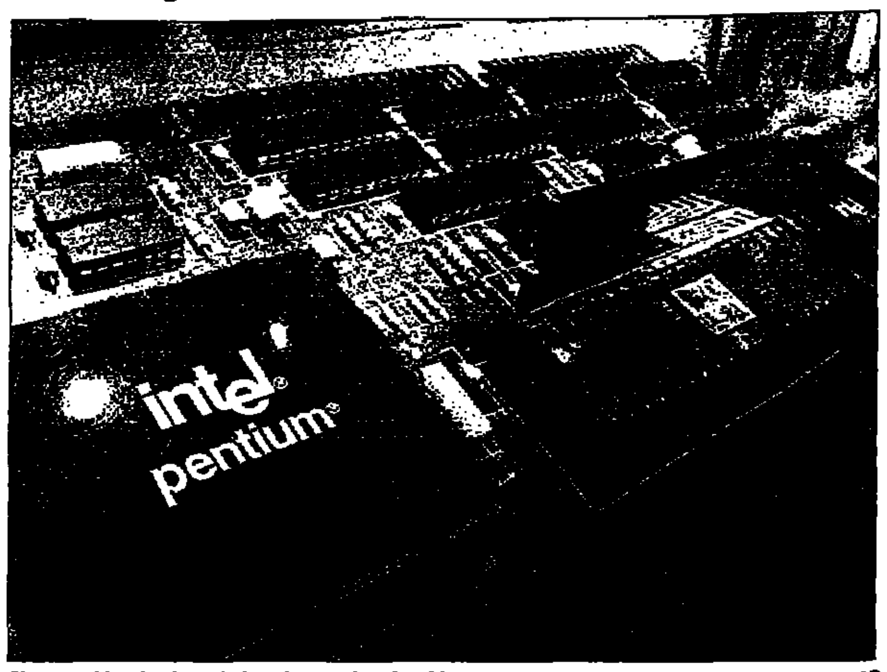
The cut should give Intel a stronger position in the fast-growing market for low-cost PCs, industry analysts said.

The chipmaker also reduced prices of its Pentium II microprocessors by 12-20 per cent, with prices of slower chips being cut more than the faster versions. These chips, used in higher-performance desktop PCs are Intel's core microprocessor products.

Intel also revealed plans for new, very fast microprocessors to be introduced next year. In the first quarter of 1999, the company said it would launch a chip – code-named Tanner – designed for use in workstations and servers with a clock speed of 500MHz. The fastest Pentium II chips run at 400MHz.

Another 500MHz chip, called Katmai, with built-in memory and a new instruction set that boosts its graphics performance, will also be introduced in the first quarter of next year.

Previously, Intel had planned the launch of Katmai for the second quarter.



Cheaper chips: Intel regularly reduces prices in mid-quarter AP

Reynolds sells bulk of can-making business

By Nikki Tait
in Chicago

Reynolds Metals, the second largest aluminium producer in the US, is selling most of its worldwide can-making business to Indiana-based Ball Corporation for $746m.

However the deal excludes Reynolds' 34.9 per cent interest in the South American Latas de Alumino (Latasa) drinks can business. Otherwise the price would have been $820m.

Ball also has the option of paying $50m of the purchase price in stock.

Reynolds blamed the exclusion of the Latasa stake on "difficulties in obtaining third-party consents and waivers necessary ... in a timely manner". However, it said it would still try to sell the interest, with the agreement of Latasa's other shareholders, in the near future.

Ball, meanwhile, confirmed that it would still be interested in acquiring the stake. Latasa, based in Brazil, has plants in Argentina, Brazil and Chile.

The agreed main deal – which includes 14 drinks can plants and two additional "end" plants – is still working its way through the competition authorities in the US. The companies said they still hoped to close the deal in the second half of the year.

If approved, the deal is expected to double Ball's share of production capacity in the North American can-making market to about one-third, and give annual sales there of about $2.3bn. This would be a leading share, and some analysts warned the deal could attract competition regulators' interest when it was first confirmed in April.

Ball, which already has interests in Asia, would have worldwide production capacity of about 50bn cans, with about 35bn in North America.

The disposal forms part of a broader restructuring by Reynolds, which has seen it pull out of a number of "non-core" activities in an effort to improve profitability and pay down debt.

Warning by Polaroid

By Richard Waters in New York

Polaroid, the US instant photography company, disappointed the stock market again yesterday with a projection that a change in inventory practices of US retailers would cut $35m from its operating profits in the latest quarter.

The company, which has already suffered declining sales in the face of a stronger US dollar, said its second-quarter revenues would be $50m-$60m lower as a result.

Polaroid had warned earlier in the year that big retailers like Wal-Mart and Kmart were cutting stock levels, leading to a one-off decline in their orders. The instant camera company said yesterday that it had now looked in more detail at the changing inventory practices of 20 or so retailers, and decided to take a charge in this quarter to reflect the expected impact on its sales.

According to the company, a number of large US retailers and drug store chains have changed their staff incentive schemes and now reward their buyers on a wide range of measures, such as inventory levels and receivables, rather than simply on gross profit margins. That had contributed to a one-off cut in inventories, it added.

While orders by retailers had fallen, sales to ultimate customers were broadly level with a year ago, the company said.

Polaroid also set aside $10m to cover expected losses due to the economic turmoil in Russia. Sales there had jumped to $200m by 1995, but have now fallen back to an annual rate of about $50m.

The charges are expected to leave earnings in 1998 "in the same $2.20 range" as last year, Polaroid said. Higher sales from new products and the benefits of a restructuring would become apparent after that, said Gary DiCamillo, chairman, adding: "We are confident that 1999 will be one of the company's strongest in recent years."

The shares fell $$\frac{3}{16}$ to $$39\frac{1}{16}$ in early trading.

Altamira star falls to earth

Edward Alden charts the career of fund manager Frank Mersch

Frank Mersch wanted to be remembered as the Peter Lynch of Canada. And for half a decade, it looked like comparisons to the legendary former manager of Fidelity's Magellan, the world's largest and most successful mutual fund, would not be inappropriate.

From 1989 to 1994, Mr Mersch, the fund manager for Altamira Investment Services, produced such spectacular returns that the tiny mutual fund company became a household name. In a country where asset management had been dominated by banks and mutual funds with up-front investment charges, Altamira pioneered no-load funds, those without investment charges, that opened the stock market to small investors.

Over five years in which his flagship Equity Fund turned in 30 and 40 per cent returns, Mr Mersch became the superstar of an industry that has grown from just C$24bn in assets in 1990 to more than C$320bn (US$219bn) today.

But Mr Mersch's run came to a crashing halt last month when he was accused by the Ontario Securities Commission of lying about a personal investment. He resigned in disgrace.

Hearings begin tomorrow before the OSC into allegation that he lied about a small 1993 stock purchase in a group that later became Diamond Fields Resources, which discovered the huge Voisey's Bay nickel deposit.

Mr Mersch's downfall, however, began more than three years ago when the Equity Fund suddenly stopped producing marvellous returns.

Altamira was set up in 1987 by the then 33-year-old Mr Mersch and two colleagues who mortgaged their homes to finance the start-up. His philosophy was to search out small companies, often junior resource stocks, that held out promise of spectacular returns.

While widely respected for his stock-picking ability, the large positions Altamira took in small companies aroused the interest of speculators, helping to drive up stock prices.

> **His philosophy was to search out small companies that held out promise of spectacular returns**

In 1989, the Equity Fund earned a 48 per cent return, more than double the Toronto Stock Exchange index. In 1991, the rise was 35 per cent, three times the index.

"He was just at the top of the heap year after year," says Rob Bell, president of BellCharts, a mutual fund information service. As a result, money began to pour in. In 1992 alone the fund grew sixfold to C$375m. Between 1993 and 1994 it rose from C$600m to C$1.7bn.

Mr Mersch became a media star, and as a company that relied on direct marketing to the public, that exposure was crucial. The first taste many Canadians had of a mutual fund outside the banks was through Altamira, says Steve Kangas, vice-president of external mutual funds at Canada Trust.

But a strategy that worked well in a C$100m fund was not so effective in a fund with C$2bn. While it was possible to find a handful of junior resource stocks that would produce large returns, there simply were not enough of them to sustain a multi-billion dollar fund.

At the same time, Mr Mersch made bad calls on larger stocks, moving out of bank stocks and into gold stocks in 1996, just as the banks were heading up and gold was going down.

As the fund underperformed the TSE index after 1994, enthusiasm for Altamira waned. From C$2.6bn in assets in 1996, Equity Fund has shrunk to C$1.9bn.

One of the weaknesses of no-load funds also became apparent: while they were easy to get into, they were also costless for investors to dump.

But Mr Mersch's legacy is likely to endure. Canada's banks, worried by the loss of personal deposits into mutual funds, have moved aggressively into the no-load business. The industry has also become much more aggressive.

With Canada's interest rates remaining low, most small investors don't know where else to put their money. In March, retirement fund season, more than C$9bn poured into mutual funds, making it the most lucrative month yet for Canada's fund companies.

NEWS DIGEST

BROADCASTING

WIC rejects C$200m radio stations offer

WIC Western International Communications, the Canadian broadcaster, yesterday rejected a C$200m (US$137m) offer by CanWest to acquire WIC's radio stations. The offer was part of a hostile effort by CanWest to gain control of WIC, which has pitched it into a battle with Shaw Communications, the Alberta cable provider. CanWest owns 46 per cent of WIC non-voting shares, while Shaw controls 48 per cent of WIC non-voting shares and 49.9 per cent of the voting shares, leaving neither company in a position to control WIC.

CanWest, which is most interested in WIC's nine television stations, made its offer for WIC's 12 radio stations after Shaw reached an agreement to acquire WIC's radio assets for $160m even if another company outbid Shaw for control of WIC.

John Lacey, WIC's chief executive, said his company would now consider a radio "duopoly" either by acquiring radio stations in key markets or through a joint venture with a partner that already owns radio assets in those markets. Mr Lacey said a duopoly would enhance the value of WIC's poorly performing radio stations. In addition to providing a cable service in Alberta, Shaw owns radio stations and controls several speciality TV channels. **Scott Morrison, Toronto**

STATIONERY

Moore warns of losses

Moore, the ailing business forms manufacturer, said it would record a second-quarter operating loss due to lower volumes, high costs, seasonal weakness and extraordinary charges. The company would not reveal its estimate of the loss, but said projections were based on results of the first six weeks of the quarter.

The company has been hit hard by sagging North American sales. Moore's forms and labels operations have suffered in recent years as it attempted to diversify its product base. Moore's profits fell almost 65 per cent in 1997 to US$55m on revenue of US$2.6bn. The company has announced it will sell off its European operations. Ed Tyler, Moore's recently appointed chief executive, is scheduled in late July to unveil a comprehensive restructuring plan to curtail costs, improve efficiencies and enhance growth opportunities. Restructuring charges are expected to be significant, the company said. Moore reported first quarter net earnings of US$5m and operating income of US$9m, compared with earnings of US$32m on operating income of US$35m last time. The company had operating income in the second quarter last year of US$22m. **Scott Morrison**

ENGINEERING

Eaton to buy Polish business

Eaton Corporation, the Cleveland-based engineering group which sells to the construction, vehicle and semiconductor industries, said yesterday that it was buying Fabryka Przeklandi Samochodowych, a truck transmission business based in Poland's Gdansk. No purchase price was announced but Eaton said that the Polish company had annual sales of about $20m and employed 900 people. It is said to be the largest maker of truck, bus and van transmissions in Poland. Eaton, which has carried out a series of deals on the truck components side recently, said that the purchase "gives us access to the expanding East European market". **Nikki Tait, Chicago**

INFORMATION TECHNOLOGY

Compaq and AOL in alliance

Compaq Computer and America Online have entered a multi-year agreement to feature AOL on all Compaq's Presario desktop internet personal computers and to support AOL members through Compaq's new Easy Access Internet Keyboard. Under the agreement, buyers of Presario desktop internet PCs will find an AOL icon displayed on the first screen, the companies said.

Digital Equipment also said that its Alta Vista Search site had been selected by Compaq as a default search engine in the new line of Presario desktop PCs. A new button on the Easy Access Internet Keyboard takes users directly to the front page of the Alta Vista Search site, Digital said. Compaq also said it had entered into a four-year internet access pact with GTE to offer dial-up internet access to all Presario PC users. **Reuters, Houston**

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INVESTMENT PRUDENTIAL ASIA AND FIRST EASTERN AIM TO BENEFIT FROM LOW VALUATIONS

Asia funds target crisis-hit companies

By Louise Lucas and Peter Montagnon in Hong Kong

Two investment funds for Asia were launched yesterday with the aim of benefiting from present low market valuations in the wake of the regional crisis.

Prudential Asia Investments, the Asian investment and institutional fund management arm of Prudential Insurance, of the US, has raised $540.5m for a private equity fund.

The funds raised are higher than the $400m targeted, which Prudential Asia attributed to investors' demand for more realistic valuations currently available in Asia.

First Eastern Investment, the Hong Kong group with extensive direct investment interests in China, has joined with former executives of Boston Consulting Group to launch a $200m private equity fund targeted at the distressed economies of south-east Asia.

The Navis Asia Fund joins a growing list of ventures aiming to benefit from present low market valuations to take stakes in regional companies whose owners are stretched by the debt crisis.

Other companies, including Jardine Fleming, the Hong Kong-based regional investment bank, have pinpointed private equity as a growth area in the wake of the crisis.

Refinancing through private equity – rather than via the public capital markets – is expected to become an increasingly popular option for smaller companies.

Despite the proliferation of such funds, few deals have been struck because owners are reluctant to sell at low prices and many family-controlled firms are reluctant to cede control.

However, Victor Chu, First Eastern Chairman, said his group's connections in China might enable the fund to acquire and restructure some mainland interests of overseas Chinese struggling in countries such as Thailand, Malaysia and Indonesia. Such entrepreneurs would be ceding control of businesses outside their home turf, so it would not be like selling the crown jewels, he said.

Among overseas Chinese-owned companies scaling back their Chinese investments is the Charoen Pokphand group of Thailand, which recently sold its local supermarket chain to Tesco, the UK retailer.

Mr Chu said his fund aimed to introduce pro-active management techniques to help the businesses acquired to restructure. First Eastern also plans to launch a fund later this month to invest in Thai-listed securities.

The Prudential fund will invest throughout Asia, but expects its first investments to concentrate on Hong Kong and Singapore, where it says there is greater transparency and sounder financial systems, and Thailand, which is seen as implementing necessary reforms.

"It's giving us a war chest we need to tackle opportunities we see in this part of the world going forward," said Michael Kwee, chairman and chief executive of Prudential Asset Management Asia.

"We have a sense now that there are relative values in this region. Not all economies have gone down by the same percentages and therefore we are looking for companies that represent better value, not only in that particular country but compared with surrounding economies."

Prudential Asset Management Asia has previously launched two private equity funds, providing almost $700m of investments in 89 Asian companies.

LTCB sends shivers down Japanese market's spine

Plunging share price has aroused fears the bank might be the next casualty in an ailing financial sector, writes **Gillian Tett**

Could Long-Term Credit Bank be the next flashpoint for Japan's ailing financial system? That was the question hanging over the Tokyo stock market yesterday as, amid a wave of market rumours, LTCB's share price plunged Y41 in morning trading to touch Y140 before closing at Y167, with 29m shares traded.

LTCB said the gyration simply reflected "groundless speculation". The bank has already sued Gendai, the Japanese magazine which claimed last week that the bank faced a liquidity squeeze, and has also threatened to report any traders spreading "false rumours" to the Tokyo stock exchange.

Musami Suda, LTCB deputy president, yesterday called a press conference to deny any financial problems, but to western onlookers such comments recall the turmoil of last November, when three large Japanese financial institutions collapsed. Consequently, some investors worry that Japan's banking sector could be heading for more turbulence.

LTCB's health carries important implications for the tactics that western banks are using to enter Japan's financial markets. The Japanese bank's innovative alliance with Swiss Bank Corporation, announced last summer, incorporated three joint ventures, in asset management, investment banking and private banking. It also included a 1 per cent cross-shareholding – the first between a Japanese and non-Japanese bank.

Other western banks have followed suit. Travelers, the US financial services group, announced last week it would take a 25 per cent stake in Nikko Securities, Japan's third largest broker, and create an investment-banking joint venture similar to the SBC-LTCB alliance.

Such moves could give western bankers rapid access to Japanese markets, but they also create a challenge: how to manage any liability for Japanese partners' problems. As one western banker says: "This issue has not really been tested yet . . . but everyone is watching to see what SBC will do."

In practice, SBC – which is merging with Union Bank of Switzerland – appears unlikely to act for the moment. Its equity exposure to LTCB is only about $30m, and management believes it has no obligation to rescue the Japanese bank. Furthermore, the Swiss bank has little desire to become saddled with the low-margin parts of LTCB's business that lie outside the joint venture.

However, since the investment banking and asset management arms are already in operation, it is highly unlikely to withdraw from them. Indeed, recent events may simply play into SBC's hands.

The joint ventures, for example, were originally billed as "equal partnerships", but SBC's influence has been growing: UBS and SBC staff now hold most key positions in the investment bank joint venture. Further problems at LTCB might allow the Swiss bank to "cherry-pick" LTCB's best staff.

If SBC does not want to "rescue" LTCB, the spotlight will turn to the Ministry of Finance and the ruling Liberal Democratic party. This highlights the second reason why LTCB might prove an interesting test case: it could shed light on the government's own ambiguous policy stance.

When the turmoil erupted last November, the government initially appeared to have accepted the idea of letting weak banks and brokers fail. Since then, there has been an about-turn. Earlier this year, Y1,800bn ($12.8bn) of capital was injected into the 18 largest banks, both strong and weak.

Some senior LDP figures have recently hinted they may push for more consolidation after parliamentary elections in July. This has prompted fresh concerns about the "weak" bank stocks.

Is LTCB one of the weak banks? At first glance, it does not appear so. It recorded a Y282.7bn pre-tax loss in 1997, after writing off more than Y600bn of its Y1,378bn problem loans. Its management is more innovative than most and has already embarked on some restructuring. But it is heavily exposed to the construction sector.

What alarms the market is that LTCB's "rump" business outside the SBC joint venture appears unattractive. This is concentrated around long-term corporate lending and is likely to suffer under "Big Bang" deregulation.

LTCB is also vulnerable to a funding squeeze. Like other long-term credit banks, it raises funds by issuing debentures to small companies and insurance groups. If these dry up, the bank could face cash flow problems.

A collapse of LTCB could spark renewed fears about the health of the banking sector in general. The most obvious impact would be in the re-emergence of the "Japanese premium" which hit Japanese banks in late 1997. At one stage, all Japanese banks were paying up to half a percentage point above the London interbank offered rate, the rate at which banks lend to each other.

"LTCB is not a big player in Europe, but neither was Sanyo Securities [which went bankrupt last October]," said one banker in London.

LTCB vehemently denies it has a cash flow problem, but market unease could take some time to disappear. Brian Waterhouse, of HSBC Securities, says: "Nothing that you could call hard fact has emerged about LTCB in recent days. But the danger is that when rumours fly around, they can become self-fulfilling."

Japanese long-term credit banks

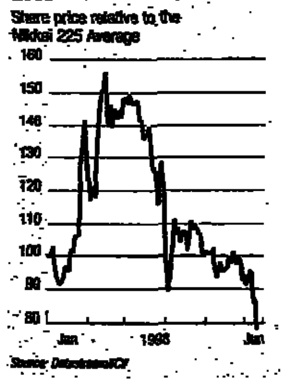
Bank	BIS ratio Mar 1998	Operating profit Mar 1998 Y bn	Operating profit Mar 1999[1] Y bn	Problem loans 1998 Y bn
LTCB	10.32	164.6	139	1,378.5
IBJ	10.86	220.6	190	1,569.4
NCB	8.25	139	78	1,731.9

1. forecast

Source: ING Barings Securities (Japan)

LTCB

Share price relative to the Nikkei 225 Average



Source: Datastream/ICV

NEWS DIGEST

INDONESIA

Electricity company reassures investors

Perusahan Listrik Negara, the state-owned Indonesian electricity monopoly, yesterday assured foreign investors that their contracts were secure but revealed its dismal finances in an attempt to persuade them to renegotiate terms.

Djiteng Marsudi, president director of PLN, tried to tone down his remarks this week questioning the validity of contracts with Siemens and other independent power producers, some of the country's largest investors. Foreign investors' fears were raised when Mr Djiteng said he had annulled one contract with a power plant owned by a cousin of former president Suharto. Most foreign investors have children of Mr Suharto as equity partners.

Mr Djiteng told the Financial Times he wanted to renegotiate terms with independent power producers and that the one annulled contract was an exception, as it was a local purchase contract that PLN had been forced to extend.

"We want to meet them and talk," he said, mentioning Siemens, PowerGen, Mission Energy, Mitsui, Unocal and Energy Equity. "But of course we have to appreciate the contracts."

Mr Djiteng said PLN would make a net loss of Rp5,600bn this year even if it received another Rp2,300bn government subsidy and the rupiah stabilised at Rp6,000 to the dollar. The subsidy is far from guaranteed and the rupiah hovers around Rp11,000-Rp12,000.

PLN also faces falling demand, with current output 10 per cent below last year's peak and 34 per cent below installed capacity. Mr Djiteng said transmission lines for Paiton I, a $2.6bn power plant of Mission Energy, General Electric and Mitsui that is coming on line this year, would not be ready for another year.

PLN has stopped paying interest and principal to the World Bank and other lenders, which are a larger cost factor than the independent power projects, according to Mr Djiteng.

He assured Siemens, PowerGen and their partner, a son of Mr Suharto, that their $1.7bn contract with PLN for the Paiton II power plant was safe but reiterated his criticism that the negotiations and contract terms lacked transparency.

Sander Thoenes, Jakarta

PHILIPPINES

Ultimatum for striking pilots

Philippine Airlines, the strike-hit carrier, yesterday gave its pilots a new ultimatum to return to work as it threatened to close its operations altogether.

Jose Antonio, PAL president, said the airline was giving its pilots one last chance to return to work, to accommodate the wishes of the Philippine government which had urged both sides to keep talking. If they failed to return, the PAL board would review its options. "They [the board] might even consider closing operations because there is no way to continue to operate without the pilots," said Mr Antonio.

Some 620 PAL pilots on Sunday ignored an ultimatum to return to work. They then defied a government order to resume work on Monday. The pilots went on strike last Friday, stranding thousands of passengers. On the fifth day of the strike, PAL said 80 per cent of its domestic and international flights were cancelled.

The pilots and PAL have been in dispute since 1997 over the airline's policy to retire 200 pilots. The government holds 33 per cent of PAL. The strike is costing the airline $4m-$5m a day, it said. **Abby Tan, Manila**

LEISURE BID FOR £1.8BN COULD BE MADE AND PROVIDE BRIERLEY WITH AN EXIT FROM ITS 46% STAKE IN THE HOTELIER

Thistle Hotels receives approaches

By Andrew Edgecliffe-Johnson

Thistle Hotels has received up to half a dozen approaches which could lead to a £1.8bn ($2.95bn) bid from a US or UK group and provide Brierley Investments with an exit from one of its most disappointing investments.

Thistle's shares, which were floated in October 1996 at 170p, jumped 37p to 237½p yesterday after the company said it had "received approaches from third parties which may or may not lead to an offer" for the company.

At least two of the bidders have approached Brierley, the New Zealand investment group which owns 46 per cent of the UK hotelier, to discuss the possibility of a bid. The price rise valued Thistle's shares at £1.45bn, on top of which a bidder would have to pick up about £350m of debt.

Rodney Price, Thistle's chairman, said "several" approaches had come from other hotel groups and financial buyers from the UK and the US.

It is believed that Stakis, the UK hotelier, and a number of US real estate investment trusts are among the potential bidders, attracted by Thistle's 24 London hotels. These form a quarter of its portfolio, but accounted for two-thirds of last year's £81m pre-tax profit. Thistle had earlier put 30 regional hotels up for sale.

Analysts said it would be difficult for Stakis to buy Thistle without a financial partner, and pointed to its alliance with Strategic Hotel Capital, a Chicago-based real estate group. The two companies joined forces in March to invest in four-star hotels in UK cities.

Speculation that Ladbroke and Bass may also be interested was dismissed by some analysts, but Ladbroke's shares rose 19¼p to 355p.

The approaches come at a difficult time for the management of Brierley and Thistle. Thistle's chief executive, Ian Burke, arrived from Holiday Inns in April, and Andrew Bould of Queens Moat Houses is not due to take over as chief operating officer until September.

Brierley's chairman, Bob Matthews, and chief executive, Paul Collins, left in April after a disappointing performance by the company, and Mr Price stepped down from Brierley's board although he remains as a consultant.

It is understood that the Brierley board changes have left it more disposed towards a sale of its stake, and that the group views a bid as its only likely exit. Mr Price said, however: "Brierley is certainly not going to do anything now that is silly. It is a very significant asset in terms of the wellbeing of Brierley."

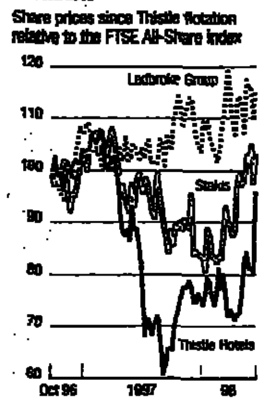
Two Singaporean government agencies control another 19 per cent of Thistle.

The hotels company is being advised by Greenhill, the New York corporate finance advisory firm.

See Lex

UK hotels

Share prices since Thistle flotation relative to the FTSE All-Share Index



Source: Datastream/ICV

Metering curbs Severn Trent

By Virginia Marsh

Severn Trent said yesterday revenues from its core water business would be held back for some time by an increase in metered customers and conservation efforts by industrial users.

"Domestic metering is really taking off," said Brian Duckworth, managing director of Severn Trent Water, the water and sewerage operation. "The fear of metering that people had a few years ago has completely disappeared."

About 14 per cent of Severn's domestic customers had meters, with the number increasing by about 55,000 a year, close to 2 per cent. Metering usually leads to lower charges as bills for owners of expensive homes are based on water consumption, not rateable value.

The group also unveiled pre-tax profits up 2 per cent at £374m ($613m) – £367m after exceptionals – while turnover was up 3 per cent at £1.25bn (£1.21bn).

However, there was disappointment at the dividend and the shares fell 47p to 998½p. Like United Utilities, Severn said it would delay payment of its final dividend of 24.37p (22.16p) until advance corporation tax was abolished next April.

Analysts said the group wished to maintain financial firepower to bid for a minority stake in Berliner Wasser Betreibe, the Berlin water utility which the city plans to privatise.

Mr Duckworth said Severn – which may bid with a German partner – also hoped to win 100 per cent of the utility's operating contract.

● Wessex Water is still interested in buying out its waste disposal joint venture partner, but does not expect to find out if it can do so until the US company completes a merger in the autumn, writes Susanna Voyle.

The Bristol-based water company is keen to increase profits from outside its regulated businesses before the 2000 price review by Ofwat, the industry regulator.

Announcing a 6 per cent increase in operating profits to £137.8m ($226m), Nicholas Hood, chairman, denied that waiting for news from Waste Management, its US partner, was stopping it from returning money to shareholders.

Analysts said UK Waste, Wessex's 50:50 joint venture and its main non-regulated business, had had a disappointing year with profits falling about 10 per cent to £22.1m. WMI is merging its business into USA Waste, its smaller rival.

Mr Hood said that when that was completed Wessex would get clearer signals about whether WMI was interested in selling its stake.

Richard Ireland, chairman, (left) and Vic Cocker, chief executive — Fergus Wilkie

BTP benefits from growth in Viagra demand

By Roger Taylor

BTP, the chemicals group, yesterday said it was having to expand capacity to cope with the rapid growth in demand for Viagra, Pfizer's new male impotence pill.

The company, which is the sole manufacturer of one of the key ingredients in the top-selling drug, said Viagra was just one of a number of new pharmaceutical projects which the company was involved with and which were expected to drive profits growth in the coming year.

The comments came as the company revealed pre-tax profits down from £48.2m ($794m) to £43.4m. The figure this year was dented by a £9.9m exceptional loss on the £88m sale of the adhesives and textile coatings division. Excluding this, underlying profits rose 10 per cent to £53.2m on sales up 8 per cent at £438.8m (£404.5m).

Steve Hannam, chief executive, said the company would look to buy more operations in fine chemicals following its £53.6m acquisition in May of Hexachimie, formerly part of Bristol-Myers Squibb, the healthcare group. This has left the group with gearing of 35 per cent, allowing room for further expansion.

He said the acquisition had helped BTP avoid a capacity bottleneck following the launch of Viagra when the company was also preparing for the launch of a number of other drugs for which BTP supplies ingredients.

He added that the leather chemicals and biocides operations provided cash and resilience to balance the more volatile and investment-hungry fine chemicals division.

Earnings per share were 12.88p (20.25p) after exceptionals and 22.26p before. The dividend rises 4 per cent to 12.22p with a final payment of 8.02p. The shares closed up 6½p at 535½p.

The Viagra publicity has focused attention on BTP's success in the high-margin high-growth market for pharmaceutical intermediates and agrochemicals, doubling the share price in the process.

COMMENT

Air traffic control

Just how "crazy" is the UK's Labour government prepared to be? The fear is, not enough. Privatisation of the National Air Traffic Service (Nats), dubbed crazy by Labour in opposition, has popped back on to the agenda. This is to be welcomed. Nats is champing at the bit of public spending borrowing requirement. Its investment programme is large: some £100m a year for information technology, radar systems and infrastructure. If it could tap the capital markets, it could easily service both ongoing investment needs and larger capital items. After all, as a monopoly whose revenues come from charges levied on airlines, this is a very low-risk business, which earns good margins and boasts strong cash flow.

Privatisation would improve Nats' finances, allowing it to service its debt in more imaginative ways than a hefty annual repayment to government. True, Nats has made use of the private finance initiative for a new control system. But these are high-tech investments, not bridges or hospitals – and the usual PFI financing, which locks Nats into a supplier for several years, is hardly ideal given rapid changes in technology.

Unfortunately, the government appears to be veering to yet more "third-way" rhetoric as the solution. One idea is to turn Nats into a not-for-profit corporation, channeling any financial surplus into improving services. But privatisation accompanied by tough regulation would also achieve this. By introducing the profit motive, it might even incentivise management. Now that would be crazy.

Radio UK

Now that venture capital groups – and the odd tabloid editor – are getting into radio, is it now time for other investors to get out? Radio assets have changed hands at dizzying multiples lately: Emap paid seven times historic sales for Melody Radio. Perhaps the larger radio groups can indeed secure big enough savings from integrating their acquisitions into national advertising networks.

But these are among the most operationally geared businesses in the sector. In the last recession, margins in many radio companies halved in two years. Piling a highly leveraged financing structure on to these types of businesses looks risky, especially as many expect a slowdown in the rate of advertising growth around the corner.

Corporate Services enters US market

By Robert Wright

Corporate Services Group, the recruitment services company, is to move into the US recruitment market with the acquisition for $250m of Corestaff, a group of subsidiaries of Metamor Worldwide, which is quoted on Nasdaq.

Jeffrey Fowler, executive chairman of Corporate Services, said he was pleased with the price being asked for Corestaff, which made operating profits of $28m in 1997 on sales of $478m.

The multiple of about nine times earnings is less than half the 20 times earnings fetched by some US recruitment companies.

The acquisition will be funded by a placing intended to raise £130m ($213m) before expenses. There will also be an issue of convertible loan notes to raise £60m.

The company operates out of three offices in Spain and 85 in France, as well as the UK. Its shares rose 22½p to 260½p. The share issue will increase the number of its shares by a quarter.

Vultures gather for Lonrho's offspring

Andrew Edgecliffe-Johnson looks at the opportunities the *demerged African interests could offer the gathering predators*

That a group of possible predators for Lonrho Africa should have broken cover just a month after the group gained its independence from its parent company has surprised few analysts.

However, despite interest from associates of George Soros, the high-profile investor, and others the vultures may not find it easy to pick off their targets.

In theory the timing could not be better for anybody contemplating a bid for the odd collection of sub-Saharan motor dealerships, breweries and game lodges.

First, even the company's management concedes that the timing of its demerger from Lonrho was awkward. Lonrho Africa's operating profits are expected to fall from £42m to less than £30m ($49m) this year, depending on currency movements.

Thursday's interim results will confirm that profits have been buffeted by El Niño, which destroyed crops and roads; by currency devaluations in its 14 markets; and by political unrest in Kenya and Zimbabwe. The death of General Sani Abacha, Nigeria's military leader, could herald further political uncertainty.

Second, London investors have so far been cautious of investing in what many perceive as a conglomerate trading in a risky continent.

Lonrho Africa came to the market with a price tag of just £133m – despite a net asset value of £190m-£200m. Its shares fell further, from 85p to as little as 73p, as some Lonrho shareholders, such as dedicated mining funds, could not invest in an African trading group.

"I don't think Lonrho Africa will last more than three months," one South African analyst said at the flotation, adding that bidders should strike soon because the group received a £48m "silver spoon" from Lonrho at the demerger to pay off expensive local debts.

Such factors might seem a brew as potent as Lonrho Africa's maize beer for anybody plotting an opportunistic takeover. But in the excitement, some analysts may have overlooked the hurdles.

For one thing, some of the groups touted as potential takeover vehicles for Mr Soros are smaller than their potential target. African investors also say that none of the mooted candidates would want all of Lonrho Africa's assets, which range from Kenyan slaughterhouses to a half-share in an amethyst mine.

African Lakes, the quoted group in which Mr Soros has a 13 per cent stake, has said it is "assessing Lonrho Africa's investment merits". But it is valued at just £20m. Plantation & General, which says it would be interested in Lonrho Africa's agricultural businesses but not in a full-blown bid, is valued at just £23m.

More interesting prospects are Blakeney Management, Greenway Partners and a host of African companies which may be interested in parts of the group.

Blakeney, the emerging markets specialist, also has a 26 per cent stake in African Lakes. It has invested $300m in 125 African countries, and admits to examining Lonrho Africa's investment potential.

Analysts say the unlisted company is an unlikely vehicle for a bid, however, not least if there is any truth in the speculation that any offer would be below the current share price. Comments from Tiny Rowland, who built up Lonrho's African interests, that he would only buy Lonrho Africa at below the current share price, are likely to rule him out too.

The most concrete interest in Lonrho Africa so far has come from Greenway, which set the Soros speculation off by taking a 4 per cent stake in the company.

The $500m New York hedge fund acted with funds linked to Mr Soros last year in a contested $364m bid for Outboard Marine, which makes outboard motors.

One Lonrho watcher said yesterday the real threat to Lonrho Africa's chances of continuing in its current state was not a bid from Greenway, but Greenway's active investment approach. The fund has urged disposals at US companies including US Shoe, Woolworth and Unisys.

The board of Lonrho Africa, led by Mark Newman, chief executive, may be receptive to pressure for a break up however. It is already trying to sell £35m of property assets, and said this week that it was "looking at the assets and how to maximise value".

South African analysts say its hotels would be easy to sell to hoteliers such as Southern Sun of South Africa or Serena of Kenya. McCarthy Retail, the Durban-based motor retailer and furniture group, could also be interested in the group's car dealerships, which include franchises for Toyota.

That would leave cotton and timber, which could appeal to Plantation & and General, and a property portfolio which may be harder to sell.

Charles Kernot, an analyst with Paribas, cautions that even management-led disposals may not be simple. "If they sell the motor dealerships, that reduces the number of countries they operate in, and increases their risk profile."

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amberley	Yr to Mar 31	52.8	(44.8)	6.07	(5.03)	6.54†	(5.45)	1.37	Oct 1	1.2	1.85	1.6
Anglian Group	Yr to Mar 28	238.4	(226.4)	24♠	(20.2♥)	18.6	(15.5)	6	Sept 7	5.4	10	9
Brunner Mond	9 mths to Mar 31	107.8	(108.6)	10.3♠	(12.3)	10	(12.4)	-	-	-	-	8.7
BSS	Yr to Mar 31	329.6	(333.2)	13.3♠	(12.5)	31.9	(30.2)	15	July 31	14	22	20.5
BTP	Yr to Mar 31	438.8	(404.5)	43.3♠	(48.2)	12.88	(20.25)	8.02	July 31	7.7	12.22	11.75
Charles Stanley	Yr to Mar 31	28.86	(17.35)	4.26	(2.08)	29.54	(13.64)	4	Jul 10	0.25	5	3.825
Cropper (James)	Yr to Mar 28	54.7	(59.3)	2.41	(5)	18.1	(36.2)	3.6	Aug 14	3.4	5	4.7
Energy Technique	Yr to Mar 31 ‡	45	(37.6)	3.02L♠	(0.453L♠)	9L	(1.4L)	1	July 13	0.75	1.5	1.25
European Motor	Yr to Mar 31	470.4	(390)	10.2	(8.76)	13.2	(11.2)	3.5	Oct 1	3.3	6.1	5.6
European Telecom	Yr to Mar 31	187.4	(143.9)	5.32	(4.6♠)	11.56†	(10.08)	2.1	Aug 21	1.75	3	2.5
Express Dairies	Yr to Mar 31 ⁑	752.8	(-)	54.8	(-)	12.9	(-)	4.9	Oct 1	-	4.9	-
Field	53 wks to Apr 4	245	(217.9)	24.1	(21.4)	30.5	(27.4)	7	Sept 24	6.3	10.4	9.4
Firth Rixson	6 mths to Mar 31	89.4	(74.9)	11.9♥	(6.49)	5.9	(3.4)	1	Aug 3	0.8	-	2.8
Fountain ForestryΦ	6 mths to Mar 31	14.6	(8.99)	0.54	(0.476)	4.24†	(4.04)	0.95	July 20	0.92	-	2.75
Great Portland Ests	Yr to Mar 31	105.4□	(96.2□)	44.7♠	(46♠)	9.4†	(10.4)	6.1	July 17	6.1	9	9
Hill & Smith	6 mths to Mar 31	40.4	(40.3)	1.79	(1.77)	3.4	(3.22)	2.1	Sept 25	2.1	-	4.2
Jarvis Hotels	Yr to Mar 28	136.6	(118.2)	31.5♥	(16♠)	17.5	(10.1)	3	Aug 15	2	4.5	3
Northern Foods	Yr to Mar 31	1,832	(1,884)	130♠	(128.3)	14.26	(16.13)	3.95	Oct 1	5.8	7.95	9.4
Readicut Intl	Yr to Mar 31 ★	258.3	(285.6)	28.4L♠	(10)	14.45L	(3.28)	1.95	Aug 10	1.95	2.58	2.58
Severn Trent	Yr to Mar 31	1,256	(1,221)	374	(366.5♠)	4.3#☆	(87.2)	25.73‡‡	Apr 6	22.16	41.12‡‡	36.5
Vardy (Reg)	Yr to Apr 30	824	(677)	19.5	(17.1♥)	24†	(21.7)	5.45	Oct 1	4.8	8.25	7.5
Volex	Yr to Mar 31	192.4	(177.3)	17	(14.4)	40.4	(34.3)	14.75	Oct 1	13.65	22.5	21
Wessex Water	Yr to Mar 31	268	(254.3)	139	(145)	3.7#☆	(32.2)	14.1	Sept 7	12.3	20.6	18
Yates Wine Lodges	Yr to Mar 29	97.8	(75.7)	13.6♥	(10.5♥)	18.8†	(14.3)	2.3	Sept 2	1.92	3.45	2.88

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡Comparatives for 10 months. ⁑Pro forma. ΦAim stock. □Net rental income. ★Comparatives restated. #Includes windfall tax. ☆On reduced capital. ‡‡Includes 1.36p enhancement for late payment.

INFORMATION TECHNOLOGY BRIEFS

Fibre optic connection delivered direct to the desktop

For about 80 per cent of companies, fibre optic cables end at the incoming hub – often at each floor of a building – and conventional copper cable connects the hub to the PC network, writes Marcus Gibson.

But without expensive signal booster equipment, copper cable cannot cope easily with the data regularly transferred around big organisations, causing logjams.

Now a simple plug-and-socket connector – Volition – has been devised by Daen Wombwell, a telecoms specialist at 3M's UK headquarters in Bracknell. It allows PCs in local networks to be linked by fibre optic cable rather than copper.

"Many companies wanted fibre-to-the-desktop but could not afford it," says Mr Wombwell. "Volition is the first economic fibre optic cabling system for data-intensive network applications."

The Volition connector uses a metallic, V-groove body that connects fibre to fibre. The device maintains the accurate alignment of the fibres to within several microns, which is critical for consistent performance and has not been achieved before.

In the US, Volition is being installed widely by data-intensive users. The capital's George Washington University has pioneered a "fibre to the pillow" policy by installing a 10 megabit-per-second fibre optic network to each of the 3,000 student bedrooms on campus.

The system will handle voice, computing, two-way video conferencing and "power-sapping" research software over a single communications infrastructure, says Douglas Gale, GWU's vice-president of systems.

"Fibre to the desktop was cheaper than copper if you added on the cost of wiring cabinets and air conditioning which copper would have required," says Dr Gale. "There is also virtually no maintenance, which saves heavily on support costs."

In the UK, companies such as British Aerospace and BICC have been among the first to be fitted with Volition. The system is particularly attractive for companies that need to transfer large amounts of data around their networks.

3M is now researching a version of Volition which would bring similar benefits to the home market.

3M: www.3m.com/volition

IN BRIEF

Infrared route round the cable problem

Cabling a small business, a temporary site or a multi-PC home in order to install a local area network can be difficult, time-consuming or impractical. One solution is a wireless network, but until recently this has either required expensive radio equipment or used low bandwidth infrared technology needing a line of sight between transceivers.

Premier Electronics, a UK-based company, has introduced what it claims is the first scattered infrared wireless ethernet system capable of operating at the hardware standard 10Mbps.

The Yalo 100 series of wireless infrared transceivers are small enough to fit on top of a computer monitor and, unlike other infrared systems, do not require line-of-sight between units. Range is up to seven metres, depending on the room characteristics.

Infrared transmission between the units establishes a secure wireless link which cannot be corrupted by outside interference or other electronic equipment. The number of PCs that can be connected this way is limited only by network load and up to four computers can be connected to one Yalo 100H hub unit.

www.premierelect.co.uk

Keeping secrets on the internet

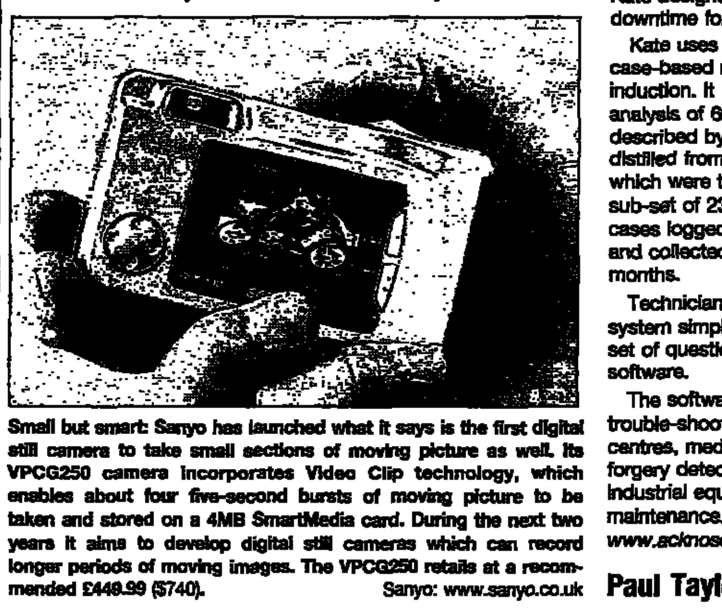
Emergent Technologies, a Coventry-based software group, has developed what it claims is a fool-proof system for electronic money transfers and sending confidential information over the internet.

The encryption software, called Eurokey, has already caught the attention of banks in the US, Canada and Japan.

"Only the intended recipient can decode the message," said David Playdell, one of its developers. "Because it is simple to operate and totally secure, it is of great value in finance, legal, and medical transfers."

The slightest interference with a Eurokey coded transmission will send a signal to the intended recipient.

www.eurokey.co.uk



Small but smart: Sanyo has launched what it says is the first digital still camera to take small sections of moving picture as well. Its VPCG250 camera incorporates Video Clip technology, which enables about four five-second bursts of moving picture to be taken and stored on a 4MB SmartMedia card. During the next two years it aims to develop digital still cameras which can record longer periods of moving images. The VPCG250 retails at a recommended £449.99 ($740). Sanyo: www.sanyo.co.uk

Quick-fire trouble shooting

Diagnosing faults in aircraft engines can be time consuming and expensive.

Acknosoft, a French-based technology group, has developed a suite of decision support software tools called Kate designed to help cut downtime for Boeing 737s.

Kate uses two techniques, case-based reasoning and induction. It is based on the analysis of 60 symptoms described by 80 parameters distilled from 1,500 cases which were themselves a sub-set of 23,000 actual cases logged by airlines and collected during six months.

Technicians using the system simply respond to a set of questions posed by the software.

The software is also used to trouble-shoot problems in call centres, medical diagnosis, forgery detection and industrial equipment maintenance.

www.acknosoft.com

Paul Taylor

INTERNET SELLING OVER THE WEB

Online crowd-pullers

Sports news and merchandise web sites already promise to be among the most successful areas of internet development. **Andrew Gellatly** continues our weekly series

Europe's sports merchandisers are licking their lips in expectation as the World Cup finals kick off in Paris today. There is money to be made selling rosettes, replica shirts, souvenirs and other soccer paraphernalia.

Most of it will be sold by shops, stadium stalls and mail order, rather than online. But by 2002, at the finals to be hosted jointly by Japan and South Korea, the sports boot may be on the other foot, if the US experience with sport-related electronic commerce is any guide.

With 88 per cent of Americans self-professed sports fans, and 50 per cent claiming to follow six sports or more, it is not surprising that more and more of Silicon Valley's venture capital is finding its way into sport. "If an e-commerce deal comes in the door we're interested – it doesn't matter what it is," says Joe Lacob of Kleiner, Perkins, Caufield & Bryers, a Silicon Valley venture capital fund. "No one wants to miss out on the next *Amazon.com* [the online bookseller]."

Mr Lacob's latest project has been the financing of three-year-old CBS Sportsline, a fast-growing online sports news service. Like most of the main sport web sites, Sportsline, partnered by the US network CBS, has a business model that is currently 60 per cent advertising revenue with the balance from e-commerce and subscription. But the e-commerce share is growing.

Sportsline's first-quarter 1998 revenues were $6.7m (£4m), of which $2.7m came from online merchandising, the largest part in the 17 days of the Nagano Winter Olympics. While these figures are dwarfed by Sportsline's $800m market value, the sale of more than $2m of Olympic merchandise in two weeks made Sportsline one of the web's most successful retail sites for a while.

If the online sports market in the US represents an enviably deep pool of consumers, the fans' tribal devotion to sports teams makes market analysis an exact science. As a microcosm of the expanding e-commerce world the US sports market is impressively precise: "If you need to know how many Scottie Pippen [the basketball player] fans prefer Coke to Pepsi, we can give you that information," says Richard Luker, founder of the ESPN Chilton Sports Poll.

Among the figures that Mr Luker's telephone polling has turned up are that 22.4 per cent of Americans use their PC for sport, compared with 10 per cent in 1996, but among that number the audience for sport is still overwhelmingly – 97 per cent – male and managerial. And tens of thousands of site users participate in fantasy leagues and online games. There is every chance they will stop and buy.

But when fans come to a sport site their shopping patterns are unlikely to be the same as at the mall. The US's favourite sport, NFL Football, is a relative newcomer to e-commerce but since *NFL.com* began selling merchandise online at last year's Superbowl in a joint venture with International Business Machines, it has learnt the structure of the market quickly.

"The average order size is definitely higher than with other distribution channels and it is continuing to build into larger items as the trust factor rises," says Jann James, the NFL's director of media development.

Out of a total of $3bn in annual NFL merchandising revenues, *NFL.com* generates a figure in the low hundreds of thousands. That is enough to worry conventional retailers and most NFL licensees are not yet selling online, instead leaving it to the big retailers such as QVC, J.C. Penney's and Footlocker.

As Mr James says: "It is important not to alienate retailers with extensive online selling – you have to hire an agency to manage and assign those rights." The league has not shied away from paying affiliate sites that bring traffic to *NFL.com* in the same way that *Amazon.com*'s affiliates now receive 15 per cent of the order value. "Because you can capture additional margin that is not a problem," argues Mr James.

e-question

'What will e-commerce mean for sports fans and merchandisers?'

With internet users increasingly coming to their favourite sports content through the main portals such as Yahoo!, Excite or America On Line, the race is on for these services to deepen their coverage or form alliances with content providers.

AOL's sport site already claims to attract three times as many visitors as any other and Mark Appleman, AOL's sport programming director, says it is not possible to plan more than three to six months ahead, as the market is developing so quickly. "Nobody's quite worked out the e-commerce model yet," he says.

Generating traffic and keeping visitors has never been more important. As Mike Levy, Sportsline's founder, says: "You can spend $5m and still not get the traffic and you need the same infrastructure whether you have a major site or a niche site." But he admits: "Without our CBS relationship it is hard to know where we would be now." Sportsline has signed up as a $500,000-a-month platinum partner on Microsoft's Internet Explorer 4.0 browser, with a prominent space on the IE4 site.

Examples of successful sports e-commerce operating outside the huge US market are harder to come by but the Tour de France has one based in the heart of internet-shy Paris. Maya de Rossi has headed the competition's online operation for three years but has seen returns only since 1997. *LeTour.fr* generated boutique revenues of FFr500,000 ($11,809.59) during the 1997 Tour with the largest proportion of customers coming from the US, Denmark and Germany. "When an Italian or Colombian wins a stage, you can feel their country present in the boutique," says Mrs de Rossi.

The Tour de France expects to double its e-commerce revenues this summer and is catering for the US market with three mirror servers in the US to improve transaction speeds and a new *leTour.com* address. Their event-driven example may show the way for European niche sports hoping to tap into the increasingly consolidated American market. Mrs de Rossi says: "We are beginning to see people buying all year round and this year we ran out of articles completely. We sold close to 1,000 yellow jerseys."

MANAGEMENT EUROPEAN CONSULTANCY

Sound growth in advice

A 15% rise in fee income reflects the strength of Europe's economy, says **Diane Summers**

Management consultants across Europe had a bumper year in 1997, with fee income rising by 15 per cent to Ecu19bn (£12.9bn) reports their pan-European body, the European Federation of Management Consultancy Associations (Feaco).

If other earnings – for example, from outsourcing activities – are added, the figure is probably more like Ecu22bn, says the federation. The federation's members account for about 40 per cent of these earnings and for about 44,000 consultants out of a total of 130,000 in Europe.

Germany and the UK continue to be the most important markets, providing 65 per cent of fee income between them, against a 37 per cent share of European gross domestic product.

Corporate strategy and organisation development last year provided consultants with 27 per cent of their work – displacing information technology (21 per cent) at the top of the fee league. Human resources consultancy also showed good growth, while most other areas remained level.

Banking and insurance were the heaviest purchasers of consulting services, accounting for more than 20 per cent of the market – not surprising, says the federation, with the introduction of economic and monetary union, the Year 2000 problem and other financial reforms.

Manufacturing came second, with transport and communications close behind. The public sector used consultants little, apart from in the UK, Italy and Greece.

Feaco members were asked to say where they thought the work would come from this year. For the second consecutive year the majority said that there would be most demand for IT work but human resources consultancy and assistance with the introduction of Emu and the euro were also seen as areas of increasing growth.

Most members thought demand for consultancy by economic sector would remain at current levels or increase.

Exceptions were the UK and Italy: UK consultants expected reduced demand from manufacturing because of the strength of sterling; Italians thought there would be less demand from the public sector.

Gil Gidron of Andersen Consulting, Feaco's chairman, says last year was encouraging for management consulting in Europe.

"As our results reflect, and indeed anticipate, the direction of national economies, there is also a strong message on the European economy as a whole," he says.

However, there is one area of concern, he adds: the developed nations of Europe have increased their demand for consultancy but this has not happened in the less developed countries. Both the European Commission and Feaco have a role to play in ensuring that a "greater knowledge gap" is not created, he comments.

Feaco survey of the European Management Consultancy Market 1997. Ecu50 from Feaco, 145 rue Royale B-1000 Brussels, Belgium.

In demand: spending and employment by country

	Fee income Ecu m	No of consultants
Austria	380.0	1,980
Belgium	480.5	2,600
Bulgaria	28.9	1,540
Denmark	282.8	995
Finland	248.3	1,970
France	1,800.0	14,800
Germany	8,363.5	58,000
Greece	61.8	965
Hungary	12.2	455
Italy	580.9	3,750
Netherlands	948.9	–
Norway	558.8	4,483
Poland	88.4	1,860
Russia	89.4	2,000
Slovenia	27.8	214
Spain	1,038.2	14,444
Switzerland	314.3	2,880
UK	4,038.5	31,274
Totals	19,833.5	134,231

Source: FEACO

هكذا من الأصل

EURO PRICES

EQUITIES

Europe waits for Greenspan

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Trans-European equity indices yesterday failed to sustain Monday's upswing and dipped as world markets awaited today's congressional testimony by Alan Greenspan, the Federal Reserve chairman.

A weak opening on Wall Street and a drop in bond prices gave a weak background for equities, with the FTSE Eurotop 300 index closing down 6.44 at 1,258.37 in trading that lacked a clear direction.

The Eurotop 100 index, which focuses on the largest, most liquid stocks suitable for derivatives trading, dropped 16.28 to 2,885.19. The Ebloc 100 index, which tracks companies from founder states of European monetary union, was off 9.08 at 1,055.09.

In the bond markets, the benchmark German government 10-year bond was quoted in late trading at 102.86, down 0.15, to yield 4.86 against 4.85 the night before.

Figures for German May unemployment were slightly lower than the market had been expecting.

The worst performing Eurotop sector was extractive industries, which dropped 4.03 per cent as Rio Tinto fell Ecu 0.50 to Ecu 10.96 following Monday's announcement of a US coal mine acquisition.

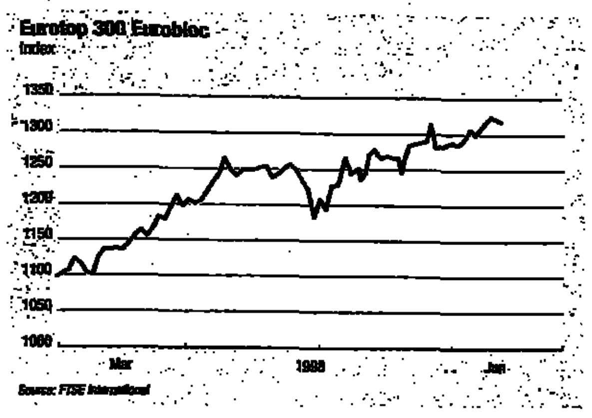
Integrated oil companies dipped 1.79 per cent as Brent oil futures dipped through the $14-a-barrel level on what dealers said was a technical sell-off. Royal Dutch was off Ecu 1.30 at Ecu 50.18 while Total B stood Ecu 2.70 lower at Ecu 116.98. However, Petrofina added Ecu 2 to Ecu 381.89.

The electricity sector was particularly mixed, with the overall index dropping 1.35 per cent. Endesa fell Ecu 1 to Ecu 19.58 as retail investors sold shares following the recent offering, and VEW lost Ecu 5.60 to Ecu 299.31.

But Tractebel rose Ecu 5.70 to Ecu 127.91 on news it had set up a new venture with Electrabel to trade in the Norwegian and Swedish energy markets. Electrabel rose Ecu 2.40 to Ecu 234.67.

Sectors which advanced on the day included construction, up 0.65 per cent, healthcare, up 1.31 per cent, household goods and textiles, 0.85 per cent ahead, and distributors, which saw a 1.24 per cent increase.

Eurotop 300 Eurobloc
Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

June 09 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1258.37	−0.51	−6.44	1.99	15.73	1284.88
FTSE Eurotop 100	2885.19	−0.56	−16.28	2.07	19.76	1026.33
FTSE Ebloc 100	1055.09	−0.85	−9.08	1.71	8.46	1063.86
FTSE Eurotop 300 Regions						
Eurobloc	1319.23	−0.78	−10.40	1.66	12.83	1339.06
UK	1156.88	−0.20	−2.29	2.77	20.58	1197.60
Europe Ex-Eurobloc	1209.27	−0.23	−2.82	2.33	17.40	1240.10
Europe Ex-UK	1316.84	−0.66	−8.80	1.61	12.98	1333.95
FTSE Eurotop Industry Sectors						
RESOURCES	1019.66	−1.88	−19.55	2.75	15.70	1050.13
Extractive Industries	828.18	−4.03	−34.76	3.13	0.00	828.18
Oil, Integrated	983.59	−1.79	−17.93	2.74	8.77	992.35
Oil, Exploration & Prod	1003.63	−1.77	−18.04	2.42	0.00	1003.63
GENERAL INDUSTRIES	1258.25	−0.44	−5.66	2.02	14.08	1276.74
Construction	1026.53	+0.65	+6.67	2.89	0.00	1026.53
Building Matls & Merchs	1102.42	−0.67	−7.44	2.41	6.43	1108.87
Chemicals	1070.18	−0.35	−3.78	2.08	14.73	1085.96
Diversified Industrials	1046.88	−0.36	−3.77	2.11	8.62	1055.86
Electronic & Elect Equip	1068.60	−0.47	−5.05	1.70	0.49	1069.10
Engineering	1073.36	−0.78	−8.39	3.17	3.42	1076.86
Paper, Pckg & Printing	1034.90	−0.49	−5.05	2.25	0.00	1034.90
CONSUMER GOODS	1189.84	+0.07	+0.80	1.63	12.26	1215.62
Automobiles	1128.18	−0.18	−1.98	1.01	6.63	1133.14
Alcoholic Beverages	1026.90	+0.05	+0.48	2.25	1.86	1028.85
Food Producers	1071.80	−0.37	−3.96	1.57	7.80	1079.89
Household Goods & Texts	1126.13	+0.85	+9.46	1.73	0.72	1128.93
Healthcare	1004.52	+1.31	+13.03	2.29	9.52	1014.73
Pharmaceuticals	999.58	+0.27	+2.69	1.34	2.07	1001.68
Tobacco	1031.35	−0.74	−7.65	4.13	1.81	1033.29
SERVICES	1226.29	−0.29	−3.61	1.84	12.38	1249.31
Distribution	1056.23	+1.24	+12.89	1.04	2.70	1059.08
Leisure & Hotels	1053.08	+0.04	+0.45	2.30	0.00	1053.08
Media	1078.71	−0.21	−2.22	2.09	1.29	1080.07
Retailers, Food	1007.83	−1.11	−11.36	2.08	7.76	1015.61
Retailers, General	1074.59	+0.53	+5.70	2.13	6.22	1081.09
Telecommunications	1049.63	−0.98	−10.40	1.61	4.20	1053.98
Breweries, Pubs & Rests	984.99	+0.75	+7.38	2.86	8.69	993.91
Support Services	1054.15	+0.26	+2.76	1.19	5.68	1060.16
Transport	1089.07	−0.38	−4.15	2.40	5.80	1095.20
Information Technology	1198.38	+2.42	+28.28	0.34	2.23	1201.10
UTILITIES	1300.60	−1.25	−16.45	3.38	41.34	1358.75
Electricity	978.27	−1.35	−13.42	3.57	17.45	995.66
Gas Distribution	1016.06	−1.11	−11.40	1.81	83.72	1108.49
Water	1014.85	−0.93	−9.56	4.98	13.99	1028.74
FINANCIALS	1380.45	−0.56	−7.72	1.88	18.59	1407.95
Banks,Retail	1002.50	−0.48	−4.86	2.09	7.69	1010.29
Insurance	1006.69	−0.55	−5.61	1.31	4.29	1011.06
Life Insurance	1055.83	−0.76	−8.05	1.99	3.19	1059.33
Other Financial	1013.08	−1.40	−14.35	1.94	6.00	1019.13
Investment Companies	1124.40	−0.88	−9.98	1.99	10.64	1135.20
Property	879.56	−0.98	−8.71	3.06	12.49	892.17

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THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

[illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

[illegible]

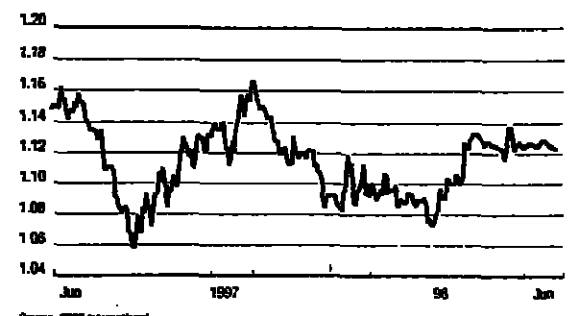
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Jun 09	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.069929	+0.0006	+0.00	+0.0004	+0.00
Belgium	BEF	41.258878	+0.0129	+0.03	+0.0105	+0.03
Czech Republic	CZK	37.149845	−0.0955	−0.26	+0.2305	+0.62
Denmark	DKK	7.621095	+0.0048	+0.06	+0.0050	+0.07
Finland	FIM	6.076471	+0.0002	+0.00	−0.0001	+0.00
France	FRF	6.703444	−0.0014	−0.02	+0.0006	+0.01
Germany	DEM	1.999572	+0.0001	+0.00	+0.0000	+0.00
Greece	GRD	338.406196	−0.7096	−0.21	−1.7031	−0.50
Hungary	HUF	239.519474	−0.3051	−0.13	−1.8421	−0.76
Ireland	IEP	0.793155	+0.0002	+0.03	+0.0005	+0.07
Italy	ITL	1970.246268	+0.4114	+0.02	−0.1482	−0.01
Luxembourg	LUF	41.258878	+0.0129	+0.03	+0.0105	+0.03
Netherlands	NLG	2.253620	−0.0003	−0.01	+0.0002	+0.01
Norway	NOK	8.410879	+0.0144	+0.17	−0.0163	−0.19
Poland	PLN	3.869020	−0.0021	−0.06	−0.0519	−1.32
Portugal	PTE	204.524709	−0.2261	−0.11	−0.2019	−0.10
Romania	ROL	9634.936838	−6.9780	−0.07	+62.3974	+0.65
Russia	RUB	6.962996	+0.0098	+0.14	+0.0498	+0.72
Slovakia	SKK	38.720648	+0.0630	+0.16	−0.0734	−0.19
Spain	ESP	169.749048	−0.0011	+0.00	−0.0317	−0.02
Sweden	SEK	8.847625	+0.0309	+0.35	+0.0890	+1.02
Switzerland	CHF	1.659458	−0.0022	−0.13	−0.0027	−0.16
United Kingdom	GBP	0.686524	−0.0025	−0.36	+0.0011	+0.16
ECU	ECU	1.014505	−0.0002	−0.02	+0.0000	+0.00
Americas						
Brazil	BRL	1.296306	−0.0001	−0.01	+0.0044	+0.34
Canada	CAD	1.638670	−0.0044	−0.27	+0.0076	+0.47
Mexico	MXN	9.938873	+0.0202	+0.20	−0.0377	−0.38
United States	USD	1.123608	−0.0013	−0.11	+0.0014	+0.12
Pacific/Middle East/Africa						
Australia	AUD	1.881257	+0.0010	+0.05	+0.0581	+3.19
Hong Kong	HKD	8.705949	−0.0094	−0.11	+0.0104	+0.12
Japan	JPY	157.859028	−0.2855	−0.18	+1.8443	+1.18
Singapore	SGD	1.922830	−0.0039	−0.20	+0.0386	+2.05
South Africa	ZAR	5.792198	−0.0158	−0.27	+0.0178	+0.31

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "In" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3384, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0167.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

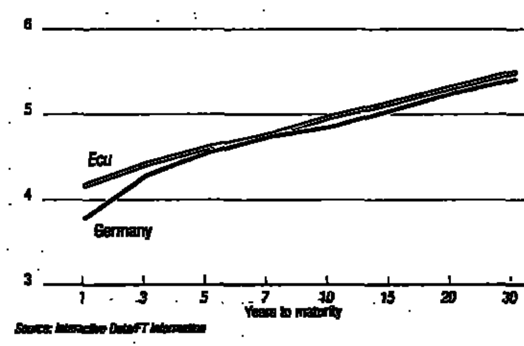
Bilateral conversion rates against the D-Mark

Jun 09	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0365	+0.01	+0.01	7.0377	3.75	+0.03
Belgium	20.6255	20.6339	+0.04	+0.01	20.6427	3.8	+0.08
France	3.35386	3.3524	−0.04	−0.05	3.3527	3.74	+0.02
Finland	3.04001	3.0389	−0.04	−0.03	3.0412	3.86	+0.14
Ireland	0.402676	0.3966	−1.51	−1.56	0.4016	5.99	+2.27
Italy	990.002	985.3338	−0.47	−0.46	990.6259	4.69	+0.97
Luxembourg	20.6255	20.6339	+0.04	+0.01	20.6427	3.8	+0.08
Netherlands	1.12674	1.1271	+0.03	+0.02	1.1269	3.69	−0.03
Portugal	102.505	102.2842	−0.22	−0.12	102.5279	4.15	+0.43
Spain	85.0722	84.8927	−0.21	−0.19	85.1412	4.25	+0.53
Germany	1		+0.00	+0.00		3.72	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (Jun 9 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

Jun 09	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	105.500	5.02	+0.02	−0.10	+0.03
France (Rep of)	04/08	5.250	N/A	102.430	4.93	+0.03	−0.10	−0.06
Italy (Rep of)	05/08	5.000	AA	99.700	5.04	+0.03	−0.12	+0.05
Portugal (Rep of)	06/08	5.375	AA−	102.430	5.06	+0.03	−0.07	+0.07
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.420	4.77	+0.06	−0.06	+0.14
Gen Electric Cap Crp	10/04	5.500	AAA	103.420	4.85	+0.01	−0.12	+0.11
Oest Kontrollbank	04/08	5.250	AAA	101.390	5.07	+0.03	−0.12	+0.08
Cred Local de France	04/08	5.250	AA+	100.210	5.22	+0.02	−0.15	+0.23
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.060	4.62	+0.09	+0.16	+0.18
Cred Foncier France	03/04	8.375	A	114.900	5.30	+0.02	−0.08	+0.56
Euro Inv Bank	04/04	5.250	AAA	103.080	4.63	+0.04	−0.11	−0.11
ABN Amro Hldg. NV	04/07	6.375	AA−	107.410	5.30	+0.02	−0.14	+0.38

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Jun 09	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	−0.02	+0.02	+0.05	+0.00	+0.01	+0.03
Belgium	−0.04	+0.02	+0.09	+0.04	+0.01	+0.08
Finland	−0.12	+0.05	+0.08	+0.01	−0.34	−0.48
France	−0.12	−0.07	−0.06	−0.05	−0.07	−0.03
Germany	−0.14	−0.05	−0.01	−0.13	−0.06	−0.04
Ireland	+0.83	+0.11	+0.12	+0.13	+0.09	+0.25
Italy	+0.24	+0.21	+0.20	+0.18	+0.16	+0.19
Luxembourg	−0.04	+0.02	+0.09	+0.04	+0.01	+0.08
Netherlands	−0.11	−0.04	−0.03	−0.07	−0.09	−0.03
Portugal	+0.11	+0.12	+0.13	+0.13	+0.25	+0.40
Spain	+0.01	+0.09	+0.12	+0.11	+0.17	+0.35
"OUTs"						
Denmark	+0.15	+0.17	+0.19	+0.09	−0.01	+0.20
Greece	+5.82	+4.13	+3.49	+2.71	+2.36	+2.22
Sweden	+0.13	+0.11	+0.12	+0.07	+0.07	−0.07
UK	+2.42	+1.37	+1.18	+0.75	+0.34	+0.05

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Jun 09	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.00	−0.05	+0.00
France Telecom	AA+	11/06	6.250	FRF	+0.15	+0.15	+0.20
Halifax	AA	07/07	5.625	DEM	+0.19	+0.18	+0.18
Ing Bank NV	AA−	01/08	5.500	NLG	+0.21	+0.17	+0.19
Bayer Hypo W Bk	A+	02/02	6.750	ITL	+0.30	+0.28	+0.33
Cred Foncier	A	02/03	7.250	DEM	+0.37	+0.38	+0.34
Thomson-Brandt Intl	A−	03/04	6.375	FRF	+0.33	+0.29	+0.35
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.29	+0.26	+0.25
Bank of China	BBB	07/99	7.125	DEM	+0.70	+0.58	+0.69
Natl Bk of Hungary	BBB−	06/01	9.000	ATS	+0.63	+0.79	+0.75
Korea Dev Bank	B+	11/02	5.625	FRF	+4.45	+4.48	+4.15

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "In" currencies.

Investors await Greenspan speech

GOVERNMENT BONDS

By Jeremy Grant in London and Richard Tomkins in New York

European markets fell slightly yesterday but trading volumes were thin as investors awaited today's testimony to Congress by Alan Greenspan, chairman of the US Federal Reserve, and the outcome of the G7 meeting in Paris to quicken pulses.

US Treasuries were lower at midday as the market held its breath for Mr Greenspan's comments, which are expected to touch on monetary policy and the pace of economic growth in the US.

"He [Mr Greenspan] usually gives something for everyone. He may point out that the US economy's strong, but that Asia's having a retarding effect," said James Mitchell, senior market strategist at Nomura.

US TREASURIES were weak in light trading as caution prevailed ahead of Mr Greenspan's testimony and the G7 meeting. At midday, the benchmark 30-year bond was down ¼ at 104$\frac{3}{16}$, yielding 5.8 per cent.

Among shorter-term issues the 10-year note was down $\frac{5}{32}$ at 100¼, yielding 5.591 per cent; and the two-year note was down $\frac{1}{32}$ at 99$\frac{13}{16}$, yielding 5.601 per cent.

Some investors opted for safety by reducing their holdings, on concern that Mr Greenspan might indicate that a rise in interest rates could come sooner than previously thought.

Investors were also worried that the G7 meeting could result in intervention to stop the dollar's rise against the yen, increasing the scope for a rise in US interest rates.

The recent rise in Treasuries, which has taken the 30-year bond yield to the low end of a month-long trading range, has been largely fed by the dollar's strength.

GERMAN BUNDS largely ignored a sharp fall in German unemployment and April statistics showing weak industrial growth.

The 10-year September bund future settled at 107.52, down 0.19 points in volume of 330,000 contracts traded in Frankfurt.

Some economists have suggested the Bundesbank may raise interest rates soon because countries with high rates on the so-called Emu periphery, including Italy and Ireland, may have trouble trimming rates as part of convergence given their rapidly growing economies.

However James McKay, chief European economist at Commonwealth Bank, said: "That is a fair argument but I don't think it is an overriding one. If the Bundesbank does all the tightening necessary this cycle, it lessens the opportunity for the European Central Bank to establish credibility by being hawkish on inflation."

The ECB council held its first meeting yesterday but Wim Duisenberg, its president, said it had not discussed monetary and inflation targets.

UK GILTS closed lower in very thin trading volume, although a one per cent rise in April industrial production weighed on the market.

The 10-year September gilt future settled 0.10 lower at 109.32.

D-Mark issue by Argentina

INTERNATIONAL BONDS

By Edward Luce

Argentina yesterday took advantage of the buoyant D-Mark sector with its second sovereign issue this year in that currency. The DM1bn offering, targeted primarily at retail investors, completes roughly 75 per cent of the country's 1998 external funding requirements.

Owing to strong demand in the D-Mark denominated market, Argentina was able to tap the sector at a spread that was significantly lower than the margin on its dollar benchmarks.

However, given the tighter swap spreads in D-Marks, this would not translate into as big a cost saving for the borrower as might seem apparent, said an official at Deutsche Bank, sole lead manager.

"There is a much more positive tone in the D-Mark sector than in dollars," said the official. "The dollar market is much more jittery."

In addition, bankers said the DMark was benefiting from its widespread treatment as the de facto euro-denominated market in advance of European monetary union.

The 12-year Argentine bond, which was priced to yield 342 basis points over bunds, was trading flat to re-offer last night. An official said about 80 to 90 per cent of the deal would eventually go to retail investors.

JFM, the sovereign-guaranteed Japanese municipal lender, also spotted the virtues of the D-Mark sector, issuing its first bond in that currency since 1995.

The DM500m issue, also JFM's largest international non-dollar bond, was priced to yield 25 basis points over the 10-year bund, representing a significant pick-up to other AAA rated bonds.

Austria's 10-year benchmark, for example, is trading at a spread of less than 10 basis points while Portugal's is in the mid-teens.

"The Japanese are essentially price-takers not price-givers right now," said one banker.

The offering was lead-managed by Paribas and Merrill Lynch.

FANNIE MAE took the sterling market by storm with only its second global offering in that currency.

The one-year bond, priced to yield 30 basis points over the August 1999 gilt, follows the increase in UK interest rates last week. This pushed the spread of UK one-year gilts over the bund to a recent high of 270 basis points, thus attracting investors back to the market.

HSBC, joint lead with Merrill Lynch, reported demand from Asian central banks and UK institutions. The deal tightened to a spread of 28 basis points after launch.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
BMW US Capital Corp	300	6.00	99.875R	Jun 2001	0.225R	+37(5⅝%May01)	Commerzbank/Nomura
D-MARKS							
KfW	1bn	5.125	99.233R	Jun 2013	0.375R	+13(i)	Dresdner/MSDW
Republic of Argentina	1bn	(a)	99.59R	Jul 2010	0.75R	+342(i)	Deutsche Bank
Grpe Bruxelles Lambert(b)§	502.8	2.50	100.00	Jul 2003	2.50	-	SBC Warburg Dillon Read
JFM	500	5.00	99.094R	Jun 2008	0.325R	+25(5¼Jan08)	Merrill Lynch/Paribas
Pacific Life Funding(c)	350	5.25	99.764R	Jun 2008	0.375R	+42(5¼Jan08)	JP Morgan Frankfurt
Ciba Speciality Chemicals	300	4.875	99.585R	Jun 2005	0.35R	+21(6⅞%May05)	Deutsche Bank
LW Rentenbank	200	2.50	90.757R	Jul 2003	0.25R	+10(4½Feb03)	ING Bank (Deutschland)
STERLING							
Fannie Mae	500	7.125(s)	99.819R	Aug 1999	0.075R	+30(6%Aug99)	HSBC/Merrill Lynch
Fin for People, Cls A(d1)‡	210	(d1)	100.00	Jun 2013	0.225	-	JP Morgan Securities
Fin for People, Cls B(d2)‡	70	(d2)	100.00	Jun 2013	0.35	-	JP Morgan Securities
ITALIAN LIRE							
European Inv'ment Bank(f)‡	150bn	(f1)	99.875R	Jul 2013	0.375R	-	Morgan Stanley DW
International Finance Corp	100bn	(g)	99.10R	Jul 2003	0.40R	-	Banca di Roma
GUILDERS							
Deutsche Ausgleichsbank	750	5.00(s)	99.55R	Jun 2009	0.325R	+13(i)	ABN Amro
GREEK DRACHMA							
World Bank(h)	15bn	7.25	99.50R	May 2002	0.50R	-	IMI Bank Luxembourg
Oest Kontrollbank	10bn	8.25	99.60R	Jun 2001	0.1875R	-	Deutsche Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 8% in yrs 1-4, 8¼% in yrs 5-8, then 9%. b) Conversion price: BFr10,370. FX: BFr20.623/DM. c) Backed by funding agreement from Pacific Life Insurance Co. d) Originator: Paragon Group. Secured on consumer loans. Callable from 30/6/01 at par. 10% clean-up call. d1) Average life: 5 yrs. 3-mth Libor +20bp to Jun 04, then +50bp. d2) Av life: 6 yrs. 3-mth Libor +55bp to Jun 04, then +125bp. d3) Also issued: Class C, £20m, 6 yrs, 3-mth Libor +130bp to Jun 04, then +300bp, par. f) Callable on 2/7/02 at par. f1) 8% in yr 1, 7½% in yr 2, 7% in yr 3, 6% in yr 4, then 15% −2 x 12-mth Libor. g) Single coupon at maturity linked to international equity basket: minimum 15%. h) Fungible with Dr20bn. Plus 44 days accrued. i) Over interpolated yield. s) Short 1st coupon

S&P cuts Russia's sovereign rating

By Edward Luce

Standard & Poor's, the US credit rating agency, dealt Russia another blow yesterday when it downgraded the country's sovereign rating by one notch to B plus.

The move, which follows three turbulent weeks for Russia on the international markets, reflects the "significant weakening of Russia's fiscal and external payments flexibility", said the agency.

S&P said Russia's declining fiscal situation had increased the government's reliance on external and domestic debt to sustain the widening budget deficit.

The ratio of government debt to exports is expected to hit 156 per cent in 1998, up from 138 per cent last year and 126 per cent in 1996. Its debt service burden would almost double to 28 per cent from 15 per cent in 1996, the agency predicted.

The move, which follows Russia's visit to the bond markets last week with a $1.25bn issue, will almost certainly put upward pressure on the premium on its international debt.

S&P, which said the outlook for the new sovereign rating was stable, warned that Russia's financial situation was constrained by continuing tax and budgetary payments arrears. This would result in the "widespread use of money and barter substitutes" which would distort the business climate, it said.

The agency, which came in for widespread criticism for allegedly having failed to anticipate the depth of the financial problems in Asia last year, also downgraded four Russian regions and a number of private sector companies.

Fresh sale of catastrophe securities

By Christopher Adams in London and John Authers in New York

A nascent market in catastrophe-linked securities benefited from a fresh injection of investor enthusiasm yesterday as USAA, one of the biggest residential insurers in the US, successfully negotiated the sale of $450m in hurricane bonds.

The sale is the second by USAA, which began securitising its exposure to hurricane losses in a groundbreaking $400m transaction last year.

This time, however, the issue is bigger and the investment return for buyers smaller, suggesting that interest in such products has grown.

The deal has been priced and should be closed next week. It was led by Goldman Sachs, Lehman Brothers, and Merrill Lynch.

The USAA bonds, which have a life of 11¼ months, will pay an annualised yield of 400 basis points over three-month Libor, compared with 576 basis points last time.

"The benchmark for windstorm deals was lowered earlier this year by the $84m transaction for Centre Solutions and this is a comparable price when adjusted for size," said a banker.

Centre Solutions, part of the big Swiss financial services provider Zurich Group, completed the first sale of insurance-linked bonds tied to this year's hurricane season in March.

The securities were tied to losses from windstorms in Florida, the scene of the US insurance industry's biggest loss when Hurricane Andrew struck.

Securitisation transfers risk from the insurance to the capital markets. By offsetting risk in this way rather than through traditional reinsurance, insurance companies may eventually be able to reach a bigger market, enabling risk to be spread more widely and costs to be reduced.

The proceeds from the latest bond sale will be held by a special purpose vehicle, which is providing reinsurance to USAA.

Investors have agreed to pay 90 cents in every dollar of losses between $1bn and $1.5bn from a single US east-coast and Gulf of Mexico hurricane.

While the latest sale generated more demand from investors than last year, it is unlikely to be followed by many similar deals in the near future because of an absence of natural catastrophes and declining prices in catastrophe reinsurance.

The vast majority of the buyers were capital markets investors, rather than reinsurers. Bankers said the concept could move to other forms of risk such as political and energy risk.

It emerged this week that Fifa, soccer's world governing body, was seeking to protect itself, possibly by issuing catastrophe bonds, against the risk of future World Cups being cancelled.

Expectations are also growing that an $80m transaction protecting Yasuda Marine, a leading Japanese insurer, against the risk of insurance loss from typhoons may be completed shortly.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jun 9	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	102.6711	5.45	+0.36	+0.72	+0.46	−0.17
	10/07	10.000	131.2252	5.61	+0.12	+0.28	−0.06	−1.71
Austria	09/99	7.000	103.4500	4.14	+0.05	+0.09	+0.01	+0.30
	07/07	5.625	104.9000	4.94	+0.02	+0.03	−0.11	−0.83
Belgium	01/00	4.000	99.7200	4.17	+0.03	+0.08	−0.04	+0.57
	03/07	6.250	108.8700	4.98	+0.02	+0.03	−0.09	−0.86
Canada	09/99	4.750	99.4700	5.19	-	+0.07	+0.04	+0.70
	06/07	7.250	113.5000	5.32	-	+0.01	−0.06	−1.06
Denmark	12/99	5.000	102.2600	4.38	+0.02	+0.03	−0.47	+0.10
	11/07	7.000	114.1100	5.07	+0.02	+0.02	−0.25	−1.39
Finland	01/99	11.000	104.0676	3.80	+0.02	+0.07	−0.03	+0.15
	04/06	7.250	114.9230	4.91	+0.02	+0.03	−0.09	−1.18
France	01/00	4.000	99.8400	4.09	+0.04	+0.09	−0.03	+0.41
	10/04	6.750	111.1800	4.67	+0.03	+0.06	−0.06	−0.59
	10/07	5.500	104.4000	4.90	+0.03	+0.04	−0.10	−0.80
	10/25	6.000	108.1000	5.42	+0.02	+0.01	−0.12	−1.19
Germany	09/99	4.000	100.0400	3.95	+0.04	+0.08	−0.02	+0.48
	11/04	7.500	115.0600	4.72	+0.04	+0.05	−0.07	−0.57
	07/07	6.000	108.0300	4.88	+0.04	+0.03	−0.11	−0.88
	07/27	6.500	115.5700	5.42	+0.03	+0.01	−0.12	−1.13
Ireland	04/99	6.250	100.5300	5.50	−0.03	+0.09	+0.53	−0.71
	08/06	8.000	118.9000	5.11	+0.02	+0.02	−0.07	−1.62
Italy	05/00	8.000	102.7400	4.49	+0.01	+0.01	−0.08	−2.10
	05/02	6.250	105.4600	4.70	-	+0.01	−0.05	−2.14
	07/07	6.750	112.0300	5.07	+0.02	+0.01	−0.08	−2.24
	11/26	7.250	123.6200	5.58	+0.02	+0.01	−0.07	−2.38
Japan	03/00	6.400	110.4700	0.42	-	+0.03	+0.02	−0.64
	12/02	4.800	117.4300	0.85	+0.03	+0.05	−0.06	−1.09
	09/05	3.000	112.0000	1.26	+0.05	+0.07	−0.13	−1.21
	09/17	3.000	114.7000	2.07	+0.04	+0.04	−0.17	−1.11
Netherlands	11/99	7.500	104.6100	4.08	+0.04	+0.07	−0.03	+0.41
	02/07	5.750	105.2700	4.84	+0.02	+0.02	−0.13	−0.81
New Zealand	02/00	6.500	97.9299	7.84	+0.07	+0.56	+0.17	+0.86
	11/06	8.000	108.1361	6.70	+0.08	+0.24	−0.08	−0.53
Norway	01/99	9.000	102.5300	4.76	-	−0.12	+0.20	+0.84
	01/07	6.750	109.2500	5.37	+0.02	−0.06	−0.07	−0.58
Portugal	03/99	8.500	103.1300	4.28	+0.01	+0.05	+0.09	−1.06
	02/07	6.625	110.8200	5.05	+0.02	+0.03	−0.06	−1.52
Spain	07/99	7.400	103.4000	4.24	+0.01	+0.08	+0.09	−0.84
	03/07	7.350	116.0500	5.04	+0.03	+0.04	−0.06	−1.57
Sweden	01/99	11.000	103.9006	4.24	-	−0.14	−0.45	−0.64
	08/07	9.000	121.5420	5.01	+0.02	−0.02	−0.24	−1.98
Switzerland	02/00	5.000	105.1500	1.97	-	+0.14	+0.07	+0.49
	06/07	4.500	111.9000	2.97	−0.01	+0.12	−0.09	−0.50
UK	08/00	0.000	98.9219	6.97	+0.06	+0.34	+0.34	+0.13
	11/04	6.750	104.1953	5.98	+0.02	+0.15	+0.03	−1.11
	12/07	7.250	110.6484	5.78	+0.02	+0.15	−0.08	−1.33
	06/21	8.000	130.2734	5.64	+0.02	+0.01	−0.15	−1.51
US	10/99	5.625	100.0080	5.61	−0.01	+0.04	+0.01	−0.53
	11/04	7.875	111.7270	5.67	+0.01	+0.03	−0.09	−0.76
	08/07	6.125	103.0160	5.70	+0.02	+0.04	−0.07	−0.84
	08/27	6.375	107.3130	5.85	+0.01	-	−0.18	−0.98
ECU	01/00	4.000	99.5500	4.28	+0.05	+0.09	+0.07	+0.04
	04/07	5.500	104.1000	4.92	+0.03	+0.03	−0.13	−1.23

London closing. *New York mid-day. Source: Interactive Data/FT Information

Yields: Local market standard. Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jun 9	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.61	+0.75	+0.01	New Zealand	6.70	+1.84	+1.10
Austria	4.99	−0.13	−0.61	Norway	5.41	+0.55	−0.19
Belgium	5.03	+0.17	−0.57	Portugal	5.12	+0.26	−0.48
Canada	5.32	+0.46	−0.29	Spain	5.10	+0.24	−0.50
Denmark	5.08	+0.22	−0.52	Sweden	5.06	+0.20	−0.54
Finland	5.00	+0.14	−0.60	Switzerland	2.97	−1.89	−2.63
France	4.94	+0.08	−0.66	UK	5.74	+0.88	+0.14
Germany	4.86	-	−0.74	US	5.60	+0.74	-
Ireland	5.12	+0.26	−0.48	ECU	4.99	+0.13	−0.61
Italy	5.17	+0.31	−0.43				
Japan	1.26	−3.60	−4.34				
Netherlands	4.92	+0.06	−0.68				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Jun 9	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB−	98.0449	7.61	+0.06	−0.01	+2.01
Poland	07/04	7.125	BBB−	101.8327	6.75	+0.08	+0.15	+1.14
Russia	06/07	10.000	BB−	88.6000	12.07	+0.18	+1.19	+6.47
LATIN AMERICA								
Argentina	09/27	9.750	BB	93.7500	10.43	+0.04	+0.22	+4.64
Brazil	05/27	10.125	BB−	90.9000	11.19	−0.14	+0.61	+5.40
Mexico	05/26	11.500	BB	117.2500	9.69	+0.07	+0.24	+3.91
ASIA								
China	07/06	7.750	BBB+	105.2977	6.87	+0.06	−0.12	+1.27
Philippines	10/16	8.750	BB+	92.3893	9.64	+0.09	+0.29	+3.96
Thailand	04/07	7.750	BBB−	93.2858	8.87	+0.08	+0.31	+3.27
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB−	101.8543	8.12	+0.06	+0.12	+2.52
South Africa	10/06	8.375	BB+	104.2229	7.66	+0.06	−0.17	+2.06
Turkey	09/07	10.000	B	101.1500	9.79	+0.06	+0.17	+4.19
BRADY BONDS								
Argentina	03/23	5.750	BB	75.1250	8.38	+0.02	+0.06	+2.63
Brazil	04/14	5.000	BB−	77.0389	10.38	+0.02	+0.64	+4.72
Mexico	12/19	6.250	BB	83.7500	7.82	+0.03	+0.03	+2.11
Venezuela	03/20	6.750	B+	83.8750	8.37	+0.02	+0.11	+2.65

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.37	104.13	−0.22	104.38	104.32	6,157	79,226
Sep	103.92	103.64	−0.22	103.92	103.85	324	61,071

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	CALLS Jul	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Sep
102	1.90	1.96	2.10	0.02	0.08	0.23
103	0.99	1.15	1.33	0.10	0.26	0.44
104	0.31	0.56	0.71	0.42	0.68	0.82
105	0.04	0.21	0.33	1.63	1.72	1.81

Est. vol. total, Calls 7,594 Puts 8,580. Previous day's open int., Calls 37,855 Puts 32,111.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	107.75	107.52	-0.19	107.78	107.44	20510	53956
Dec		107.02	-0.19			0	94

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
10750	0.31	0.58	0.73	0.89	0.29	0.54	0.71	1.37
10800	0.12	0.33	0.49	0.70	0.60	0.81	0.97	1.68
10850	0.04	0.19	0.32	0.53	1.02	1.17	1.30	2.01

Est. vol. total, Calls 12990 Puts 12840. Previous day's open int., Calls 151878 Puts 115330

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	105.14	105.04	−0.10	105.16	104.98	100,447	211,509

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		105.02	-0.09			0	0
Dec		104.85	-0.11			0	0

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	120.07	119.79	-0.20	120.13	119.73	29892	85065
Dec		106.20	-0.20			0	0

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jul	CALLS Aug	PUTS Jul	PUTS Aug
11950	0.43	0.67	0.14	0.38
12000	0.17	0.41	0.38	0.62
12050	0.05	0.23	0.76	0.94

Est. vol. total, Calls 195 Puts 250. Previous day's open int., Calls 8816 Puts 11783

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	109.25	109.10	−0.20	109.28	109.05	45,790	79,023
Sep	109.20	108.93	−0.18	109.03	108.90	7,026	29,771

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	102.41	102.37	-0.09	102.41	102.35	201	4987
Sep	103.80	103.81	-0.10	103.80	103.80	20	2924

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109-20	109-01	-0-10	109-20	108-94	1202	19898
Sep	109-39	109-32	-0-10	109-41	109-20	51875	127025

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
10900	0.59	0.89	1.00	0.26	0.56	0.77
10950	0.30	0.63	0.83	0.49	0.81	1.01
11000	0.14	0.43	0.62	0.82	1.11	1.30

Est. vol. total, Calls 5787 Puts 525. Previous day's open int., Calls 48140 Puts 14642

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	121-20	121-24	-0-06	122-00	121-23	45,001	181,932
Sep	121-22	121-18	-0-06	121-27	121-15	280,653	732,443
Dec	121-19	121-03	-0-06	121-15	121-06	4,386	85,006

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Jun	133.60	133.56		133.60	133.55	865	n/a
Sep	133.64	133.58		133.67	133.56	3093	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.10	104.06	−0.02	104.10	104.00	32	4,382

US CORPORATE BONDS

Jun 8	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA−	104.2475	6.05	−0.01	−0.05	+0.45
NY Tel	08/25	7.00	A+	100.4121	6.96	−0.01	−0.13	+1.18
CWE	05/08	8.00	BBB	110.9962	6.47	−0.01	−0.13	+0.90
FINANCIALS								
GECC	05/07	8.75	AAA	117.5983	6.16	-	−0.11	+0.59
Banc One	08/02	7.25	A+	103.9113	6.16	−0.01	−0.05	+0.56
US West	01/07	7.30	BBB	107.1437	6.21	-	+0.22	+0.64
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB	100.0892	6.10	+0.03	−0.09	+0.93
Wal Mart	05/02	6.75	AA	102.8873	5.91	−0.01	−0.17	+0.31
Dayton Hud	06/21	9.70	BBB+	134.1548	6.75	-	−0.18	+0.97
AGENCIES								
FHLMC	04/07	7.14	N/A	108.5454	5.88	−0.01	−0.16	+0.31
SLMA	03/00	7.50	N/A	102.9213	5.71	-	−0.05	+0.13
FNMA	02/18	8.95	N/A	132.5861	6.08	-	−0.18	+0.30
FFCB	06/06	8.95	N/A	119.6504	5.83	−0.01	−0.14	+0.26
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.6300	0.00	-	-	-
AK Stl	12/01	9.13	BB−	105.5000	0.00	-	-	-
Pacalta	08/04	10.75	B−	102.2500	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.60
Broker loan rate	7¾	Two month	-	Three year	5.60
Fed.funds	5$\frac{7}{16}$	Three month	5.14	Five year	5.62
Fed.funds at intervention	-	Six month	5.40	10-year	5.80
		One year	5.45	30-year	5.80

INTERNATIONAL BONDS

Jun 9	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	105.7000	4.92	+0.03	−0.11	+0.05
Spain	01/07	5.750	AA	105.4100	4.95	+0.03	−0.13	+0.08
Philip Morris	03/04	5.375	A	102.1200	4.94	+0.03	−0.16	+0.26
Finland FRN	09/02	3.570	AA	100.5688	3.99	+0.04	−0.04	−0.47
EURO FFR								
Austria	01/04	5.500	AAA	103.8200	4.70	+0.03	−0.08	+0.07
Abbey Nat	02/04	6.000	AA	105.7800	4.81	+0.04	−0.04	+0.18
Cred Foncier	02/04	9.125	A	119.9600	5.00	+0.06	−0.04	+0.37
SCIF FRN	12/01	3.633	AA−	99.7806	4.21	+0.04	−0.03	−0.14
EURO LIRA								
EIB	02/07	7.000	AAA	113.0000	5.10	+0.02	−0.04	-
Abbey Nat	02/02	6.800	AA	106.4300	4.84	+0.01	+0.02	+0.10
Walt Disney	06/00	8.625	A	107.2700	4.77	−0.02	−0.05	+0.22
EIB FRN	03/01	5.356	AAA	100.0091	4.39	+0.02	−0.04	−0.24
EURO £								
EIB	12/07	7.625	AAA	111.2500	6.02	+0.03	−0.14	+0.21
Dresdner Bk	12/07	7.750	AA−	107.6424	6.63	+0.01	−0.02	+0.82
British Gas	03/00	7.625	A+	100.6500	7.20	+0.08	+0.28	+0.47
Abbey Nat FRN	02/02	7.650	AA	100.0121	6.22	+0.02	+0.13	−0.01
EURO $								
EIB	04/07	7.250	AAA	108.4400	5.99	-	−0.05	+0.39
ABN Amro	06/07	7.125	AA−	104.7679	6.42	+0.01	-	+0.82
Quebec	01/07	7.000	A+	104.6641	6.29	+0.01	−0.08	+0.69
Citicorp FRN	02/04	5.754	A+	100.4827	5.56	+0.01	−0.13	−0.05
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.3232	5.69	+0.03	−0.01	+0.16
Toronto	05/04	8.500	AA+	113.9636	5.67	+0.03	+0.01	+0.14
Bell Canada	07/09	10.625	A+	105.1033	5.65	+0.03	+0.03	+0.96
Deutsche B FRN	09/02	5.875	AAA	100.8010	5.66	+0.03	+0.11	+0.16
EURO YEN								
World Bank	03/02	5.250	AAA	116.5540	0.79	+0.04	+0.04	+0.17
Spain	03/02	5.750	AA	118.4050	0.79	+0.04	+0.02	+0.17
Cred Foncier	08/02	4.750	A	114.0928	1.25	+0.02	−0.05	+0.63
Italy FRN	07/99	0.711	AA	100.2921	0.11	-	−0.01	−0.12

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue Jun 9	Day's change %	Mon Jun 8	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	118.83	−0.05	118.89	1.83	5.14
2 5-15 years (20)	162.54	−0.08	162.67	1.54	5.47
3 Over 15 years (5)	204.28	−0.11	204.50	1.03	6.32
4 Irredeemables (4)	259.85	−0.19	260.34	1.53	7.20
5 All stocks (46)	154.84	−0.08	154.96	1.59	5.65
Index-linked					
6 Up to 5 years (2)	216.79	−0.02	216.84	0.71	3.13
7 Over 5 years (9)	231.91	−0.01	232.03	1.68	2.95
8 All stocks (11)	229.90	−0.01	229.93	1.52	2.95

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

UK Indices

	Low coupon yield Jun 9	Jun 8	Yr. ago	Medium coupon yield Jun 9	Jun 8	Yr. ago	High coupon yield Jun 9	Jun 8	Yr. ago
5 yrs	6.11	6.08	6.88	6.18	6.15	6.95	6.14	6.14	7.02
15 yrs	5.61	5.60	7.05	5.70	5.69	7.08	5.79	5.78	7.10
20 yrs	5.57	5.56	7.10	5.67	5.66	7.10	5.78	5.77	7.10
Irred.†	5.78	5.77	7.21						

Inflation 5%	Jun 9	Jun 8	Yr. ago	Inflation 10%	Jun 9	Jun 8	Yr. ago
Up to 5 yrs	3.02	3.01	3.28		2.40	2.39	2.67
Over 5 yrs	2.88	2.87	3.56		2.49	2.49	3.38

FT Fixed Interest Indices

	Jun 9	Jun 8	Jun 5	Jun 4	Jun 3	Yr ago	High*	Low*
Govt. Secs. (UK)	105.26	105.26	105.37	105.24	105.05	96.44	105.89	93.31
Fixed Interest	144.25	144.21	144.07	143.73	143.87	120.70	144.05	115.32

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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Cautious trading lets yen gain ground

MARKETS REPORT

By Daniel Dombey

The yen recovered a little yesterday after hitting another seven-year low in early trading.

A day after the currency broke through the Y140 mark, it fell to Y141.35, before staging a muted rally to Y140.3 by the end of the London trading day. During early trading in New York, the currency slightly weakened once again, to Y140.4.

The yen has been hurt by worries about the depth of Japan's financial crisis and political inaction before upcoming elections. But the markets have become cautious about possible intervention to rescue the Japanese currency.

"There is an air of nervousness, since this is the week when the world's great and the good are all slated to speak at some time," said Nick Parsons, chief currency strategist at Paribas.

Yesterday saw a meeting of the Group of Seven deputy finance ministers, and a press conference by Wim Duisenberg, head of the European Central Bank. Today Alan Greenspan, the Federal Reserve chairman, will testify before Congress and the Bundesbank's governing council meets.

But most eyes are still trained towards Tokyo. "Fear of intervention is greater as the dollar comes off against the yen, not as dollar/yen goes up. People think that the Bank of Japan will go with the market," said Mr Parsons.

"Volumes are considerably down on the last few weeks. Short-term investors are playing in tens and twenties (millions of dollars), rather than hundreds and two hundreds, not wishing to be caught out."

■ At his press conference, Mr Duisenberg said that money supply in the euro-zone was not growing excessively. Annualised money supply growth across the eleven countries is currently five per cent. His remarks, indicating that interest rates under his stewardship of the ECB might not be as high as some think, helped the dollar and the pound rise against the D-Mark in late trading.

The dollar ended European trading at DM1.780, compared with DM1.778 the day before, while the pound gained a pfennig to DM2.913.

Mr Duisenberg also said that 10 to 15 per cent of the ECB reserves would be held in gold, but added that the bank had yet to decide either what its minimum reserves should be or whether it should hold any yen.

Mr Duisenberg's comments came on top of improved UK industrial production statistics and a Standard and Poor's downgrade of Russian sovereign debt. Both factors were seen as weakening the D-Mark, although it remained comfortably within its current trading range.

Early in the day, the currency had been boosted by the latest in a series of rumours of an imminent Bundesbank rate hike. But the consensus in the markets remains that any rate increases will take place late in the year and the currency soon fell back.

■ Other Asian currencies recovered alongside the yen, but the Australian dollar continued to bump near a 12-year low. Towards the end of trading in Europe yesterday, the currency stood at \$0.593 against the US dollar, a little above the previous day's close of \$0.5971. The Aussie has been hurt by the country's growing current account deficit.

Marc Chandler, currency analyst at Deutsche Bank in New York, said that the Australian dollar was likely to stay around its current levels for some time to come.

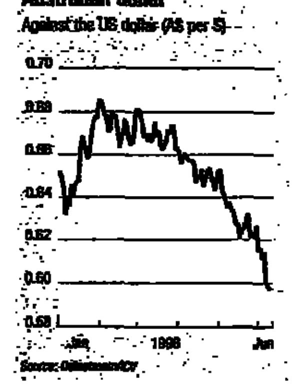
"It wouldn't surprise me to see a bounce, since there is not much downside left in the currency," he said. "But it would be a limited bounce, to about \$60.30."

■ The fall-out from the yen's weakness was also highlighted yesterday, when Dai Xianglong, governor of the Chinese central bank, called for Japan to strengthen its currency.

Mr Dai said the Asian financial crisis had increased pressures on China's economic reforms and had hurt exports. But he stressed that the Chinese renminbi was stable. Many analysts are worried that if the yen continues to slide, the Chinese will feel forced into a devaluation, sparking a new crisis.

Australian dollar

Against the US dollar (A\$ per \$)



■ POUND IN NEW YORK

Jun 9	—Latest—	– Prev. close –
£ spot	1.6350	1.6340
1 mth	1.6322	1.6314
3 mth	1.6270	1.6262
1 yr	1.6075	1.6065

■ OTHER CURRENCIES

Jun 9	£	$
Czech Rp	54.0650 - 54.1635	33.0430 - 33.0830
Hungary	348.740 - 349.051	213.140 - 213.200
Iran	4911.60 - 4908.60	3000.00 - 3000.00
Kuwait	0.5013 - 0.5018	0.3064 - 0.3065
Peru	4.7318 - 4.7397	2.8920 - 2.8950
Poland	5.6285 - 5.6402	3.4400 - 3.4450
Russia	10.1379 - 10.1474	6.1960 - 6.1980
U.A.E.	6.0093 - 6.0136	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jun 9		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. index
Europe													
Austria	(Sch)	20.4949	+0.0741	833 - 064	20.5113	20.3880	20.4236	4.2	20.2906	4.0	19.7729	3.5	103.3
Belgium	(BFr)	60.0896	+0.2333	485 - 507	60.1600	59.7910	59.8693	4.2	59.5091	3.9	58.0161	3.5	102.7
Denmark	(DKr)	11.1013	+0.0468	962 - 063	11.1070	11.0410	11.0687	3.5	11.0071	3.4	10.7516	3.2	105.4
Finland	(FM)	8.8513	+0.0319	445 - 581	8.8585	8.8060	8.8202	4.2	8.7686	3.8	8.5488	3.4	81.3
France	(FFr)	9.7646	+0.0329	599 - 692	9.7770	9.7179	9.7286	4.4	9.6685	4.0	9.4213	3.5	108.2
Germany	(DM)	2.9127	+0.0106	111 - 142	2.9156	2.8973	2.9024	4.2	2.8831	4.1	2.8106	3.5	104.4
Greece	(Dr)	492.941	+0.731	545 - 338	493.364	491.002	495.244	-5.6	498.958	-4.9	509.892	-3.4	61.3
Ireland	(I£)	1.1554	+0.0044	540 - 567	1.1575	1.1498	1.1542	1.2	1.1521	1.2	1.1299	2.2	95.1
Italy	(L)	2869.95	+10.85	826 - 165	2871.90	2854.65	2864.14	2.4	2861.46	2.6	2784.7	3.0	76.2
Luxembourg	(LFr)	60.0896	+0.2333	485 - 507	60.1700	59.7910	59.8693	4.2	59.5091	3.8	58.0161	3.5	102.7
Netherlands	(Fl)	3.2827	+0.0113	812 - 841	3.2879	3.2655	3.2709	4.3	3.2486	4.0	3.1669	3.5	102.2
Norway	(NKr)	12.2517	+0.0647	478 - 556	12.2581	12.1826	12.2186	3.2	12.1607	3.0	11.9413	2.5	98.5
Portugal	(Es)	297.920	+0.736	658 - 183	298.502	296.807	297.091	3.3	295.432	3.3	288.085	3.3	92.0
Spain	(Pta)	247.265	+0.882	148 - 381	247.390	245.970	246.587	3.3	245.271	3.2	239.314	3.2	77.1
Sweden	(SKr)	12.8879	+0.091	798 - 959	12.9163	12.7592	12.8516	3.4	12.7834	3.2	12.496	3.0	85.4
Switzerland	(SFr)	2.4172	+0.0053	157 - 186	2.4192	2.4075	2.4054	5.8	2.383	5.7	2.2887	5.3	106.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.9
Ecu	-	1.4778	+0.005	768 - 788	1.4796	1.4706	1.4734	3.6	1.4654	3.3	1.4304	3.2	-
SDR†	-	1.223239	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6365	+0.0048	359 - 370	1.6373	1.6299	-	-	-	-	-	-	-
Brazil	(R$)	1.8882	+0.0065	874 - 890	1.8895	1.8797	-	-	-	-	-	-	-
Canada	(C$)	2.3869	+0.0021	857 - 880	2.3884	2.3775	2.3812	2.8	2.3712	2.6	2.3332	2.2	81.3
Mexico	(New Peso)	14.4774	+0.0611	689 - 859	14.4910	14.4060	14.6444	-13.8	14.9819	-13.9	16.4538	-13.7	-
USA	($)	1.6367	+0.004	362 - 372	1.6378	1.6308	1.6339	2.1	1.6288	1.9	1.6091	1.7	112.0
Pacific/Middle East/Africa													
Australia	(A$)	2.7404	+0.0112	384 - 424	2.7451	2.7190	2.7351	2.3	2.7268	2.0	2.6867	1.9	80.7
Hong Kong	(HK$)	12.6629	+0.0317	786 - 872	12.6905	12.6371	12.6961	-1.3	12.7286	-1.4	13.0564	-2.9	-
India	(Rs)	69.1097	+0.8849	640 - 553	69.1660	68.3450	-	-	-	-	-	-	-
Israel	(Shk)	5.9990	+0.0236	914 - 066	6.0075	5.9984	-	-	-	-	-	-	-
Japan	(Y)	229.654	+0.407	526 - 781	230.390	228.680	228.209	7.6	225.544	7.2	214.019	6.8	110.3
Malaysia	(M$)	6.4650	-0.074	548 - 751	6.5545	6.4259	6.5927	-23.7	6.7515	-17.7	7.2168	-11.6	-
New Zealand	(NZ$)	3.2203	+0.0129	171 - 235	3.2296	3.2085	3.2254	-1.9	3.2341	-1.7	3.2593	-1.2	92.9
Philippines	(Peso)	64.3224	-0.2919	572 - 875	64.5997	64.0380	64.7612	-8.2	65.7306	-8.8	70.2833	-9.3	-
Saudi Arabia	(SR)	6.1389	+0.0153	367 - 410	6.1427	6.1170	6.1303	1.7	6.1151	1.6	6.0606	1.3	-
Singapore	(S$)	2.8009	+0.0045	992 - 026	2.8088	2.7853	2.7973	1.8	2.7964	0.6	2.7939	0.2	-
South Africa	(R)	8.4372	+0.0075	322 - 422	8.4462	8.4210	8.5198	-11.8	8.6361	-9.4	9.0794	-7.6	-
South Korea	(Won)	2284.83	+0.68	923 - 044	2291.55	2278.23	-	-	-	-	-	-	-
Taiwan	(T$)	56.8508	+0.1718	925 - 091	56.9480	56.8316	56.8793	-0.6	56.9926	-1.0	57.3494	-0.9	-
Thailand	(Bt)	70.2145	-0.3998	112 - 177	71.0140	70.0370	71.9724	-30.0	74.519	-24.5	82.3059	-17.2	-

† Rates for Jun 8. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.5221	+0.0147	188 - 253	12.5330	12.4880	12.5002	2.1	12.4572	2.1	12.2882	1.9	103.2
Belgium	(BFr)	36.7200	+0.053	000 - 400	36.7750	36.6010	36.6547	2.1	36.535	2.0	36.055	1.8	102.8
Denmark	(DKr)	6.7827	+0.0119	817 - 837	6.7859	6.7636	6.7745	1.5	6.7577	1.5	6.6817	1.5	104.9
Finland	(FM)	5.4080	+0.0063	055 - 105	5.4124	5.3960	5.3984	2.1	5.3822	1.9	5.3128	1.8	80.9
France	(FFr)	5.9680	+0.0055	660 - 870	5.9725	5.9540	5.9543	2.4	5.9347	2.1	5.855	1.9	105.9
Germany	(DM)	1.7796	+0.0021	792 - 800	1.7812	1.7749	1.7764	2.2	1.7701	2.1	1.7467	1.8	104.2
Greece	(Dr)	301.180	-0.29	030 - 330	301.750	300.270	303.11	-7.7	306.33	-6.8	316.88	-5.2	61.2
Ireland	(I£)	1.4167	-0.0019	154 - 179	1.4195	1.4150	1.4157	0.9	1.414	0.8	1.4242	-0.5	-
Italy	(L)	1753.50	+2.35	300 - 400	1754.60	1747.88	1752.88	0.4	1750.62	0.7	1730.5	1.3	76.1
Luxembourg	(LFr)	36.7200	+0.053	000 - 400	36.7750	36.6010	36.6547	2.1	36.535	2.0	36.055	1.8	102.8
Netherlands	(Fl)	2.0057	+0.002	054 - 059	2.0122	2.0001	2.0019	2.3	1.995	2.1	1.9682	1.9	102.1
Norway	(NKr)	7.4856	+0.0213	855 - 857	7.4865	7.4580	7.4783	1.2	7.4659	1.1	7.4211	0.9	96.3
Portugal	(Es)	182.025	+0.005	920 - 130	182.300	181.700	181.833	1.3	181.377	1.4	179.035	1.6	92.7
Spain	(Pta)	151.075	+0.17	050 - 100	151.170	150.680	150.921	1.2	150.581	1.3	148.725	1.6	76.9
Sweden	(SKr)	7.8743	+0.0364	718 - 768	7.8810	7.8129	7.8657	1.3	7.8482	1.3	7.7658	1.4	85.4
Switzerland	(SFr)	1.4769	-0.0003	764 - 773	1.4790	1.4735	1.4723	3.8	1.4631	3.8	1.4231	3.8	106.3
UK	(£)	1.6367	+0.004	362 - 372	1.6378	1.6308	1.6339	2.1	1.6288	1.9	1.6091	1.7	103.4
Ecu	-	1.1075	-0.0011	071 - 079	1.1116	1.1065	1.1089	-1.5	1.1115	-1.4	1.1249	-1.6	-
SDR†	-	0.74885	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0005	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1537	+0.0012	535 - 538	1.1545	1.1529	-	-	-	-	-	-	-
Canada	(C$)	1.4584	-0.0023	581 - 586	1.4587	1.4564	1.4574	0.8	1.4557	0.7	1.45	0.6	81.5
Mexico	(New Peso)	8.8455	+0.028	430 - 480	8.8500	8.8420	8.963	-15.9	9.198	-15.9	10.2255	-15.6	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	112.9
Pacific/Middle East/Africa													
Australia	(A$)	1.6743	+0.0028	736 - 750	1.6793	1.6644	1.6735	0.6	1.6709	0.8	1.6602	0.8	80.6
Hong Kong	(HK$)	7.7491	+0.0004	488 - 493	7.7510	7.7485	7.7706	-3.3	7.8146	-3.4	8.1141	-4.7	-
India	(Rs)	42.2250	+0.4262	100 - 400	42.2500	41.6500	-	-	-	-	-	-	-
Israel	(Shk)	3.6653	+0.0055	618 - 688	3.6696	3.6574	-	-	-	-	-	-	-
Japan	(Y)	140.315	-0.095	280 - 350	141.050	139.850	139.675	5.5	138.47	5.3	133	5.2	111.6
Malaysia	(M$)	3.9500	-0.055	450 - 550	4.0150	3.9350	4.035	-25.8	4.145	-19.7	4.485	-13.5	-
New Zealand	(NZ$)	1.9675	+0.0031	662 - 689	1.9778	1.9639	1.9706	-1.9	1.976	-1.7	1.9948	-1.4	-
Philippines	(Peso)	39.3000	-0.275	500 - 500	39.6000	39.1000	39.6365	-10.3	40.3545	-10.7	43.6845	-11.2	-
Saudi Arabia	(SR)	3.7508	+0.0002	506 - 509	3.7515	3.7505	3.7521	-0.4	3.7544	-0.4	3.7655	-0.4	-
Singapore	(S$)	1.7113	-0.0015	108 - 118	1.7190	1.7050	1.7121	-0.5	1.7168	-1.3	1.7363	-1.5	-
South Africa	(R)	5.1550	-0.008	535 - 565	5.1675	5.1505	5.2145	-13.9	5.302	-11.4	5.6425	-9.5	-
South Korea	(Won)	1396.00	-3	300 - 900	1401.00	1392.00	-	-	-	-	-	-	-
Taiwan	(T$)	34.7350	+0.02	100 - 600	34.7810	34.6920	34.8125	-2.7	34.99	-2.9	35.635	-2.6	-
Thailand	(Bt)	42.9000	-0.35	500 - 500	43.5000	42.1000	44.05	-32.2	45.75	-26.6	51.15	-19.2	-

† SDR rate per $ for Jun 8. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 8: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Jun 9	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	3⅝	3⅝	3¾	3⅞	6.00	2.75	-
France	3⅝	3⅝	3⅝	3¾	3⅞	4.60	-	3.30
Germany	3¾	3⅝	3⅝	3¾	3⅞	4.50	2.50	3.30
Ireland	6¼	6¼	6¼	6⅛	5⅞	-	-	6.75
Italy	5¼	5⅛	4⅝	4⅝	4⅞	6.50	5.00	5.48
Netherlands	3⅝	3⅝	3⅝	3⅝	3⅝	-	2.75	3.30
Switzerland	2¼	2⅛	2⅛	2⅛	2⅛	-	1.00	-
US	5½	5⅝	5⅝	5⅝	5⅝	-	5.00	-
Japan	⅝	⅜	½	⅜	⅜	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5⅝	5⅝	5¾	5⅞	-	-	-
US Dollar CDs	-	5.45	5.45	5.48	5.55	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
SDR Linked Ds	-	3¾	3⅞	3⅞	3⅞	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 9	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾
Danish Krone	4⅛ - 4	4⅛ - 4	4⅛ - 4	4⅛ - 4	4⅛ - 4	4⅛ - 4
German Mark	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾	3⅞ - 3¾
Dutch Guilder	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾	3⅞ - 3¾
French Franc	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾
Portuguese Esc.	4⅞ - 4¾	4½ - 4⅜	4⅞ - 4⅜	4⅝ - 4½	4¾ - 4⅝	4⅝ - 4½
Spanish Peseta	4½ - 4⅜	4½ - 4⅜	4½ - 4⅜	4½ - 4⅜	4½ - 4⅜	4½ - 4⅜
Sterling	7⅞ - 7⅝	7¾ - 7⅝	7¾ - 7⅝	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7¾
Swiss Franc	2¼ - 2⅛	2⅛ - 2	2⅛ - 1⅞	2⅛ - 2	2¼ - 2⅛	2¼ - 1⅞
Canadian Dollar	4⅞ - 4⅝	4⅞ - 4⅝	4⅞ - 4⅝	5 - 4⅞	5⅛ - 4⅞	5¼ - 5⅛
US Dollar	5½ - 5⅜	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5¾ - 5⅝	5⅞ - 5¾
Italian Lira	5½ - 5	5½ - 5⅛	5¼ - 5⅛	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4¾
Japanese Yen	½ - ⅜	½ - ⅜	⅝ - ½	¾ - ½	¾ - ⅝	¾ - ⅝
Asian $Sing	1 - ¾	3½ - 3¼	5¼ - 4½	5½ - 4½	5¼ - 4½	5¼ - 4½

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.42	96.420	-	96.42	96.40	640	72,678
Sep	96.25	96.420	-	96.25	96.24	996	40,742

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.420	96.395	-0.020	96.420	96.390	67107	326240
Sep	96.235	96.205	-0.030	96.240	96.195	67006	394454
Dec	95.985	95.955	-0.040	95.985	95.950	50015	441432
Mar	95.870	95.835	-0.040	95.870	95.830	35031	403775

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		96.470	-0.020			0	0
Jul		96.425	-0.020			0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.000	95.090	+0.090	95.090	95.000	78687	197368
Sep	95.620	95.610	-0.010	95.650	95.600	39627	193993
Dec	95.940	95.900	-0.040	95.940	95.880	18818	148482
Mar	95.870	95.820	-0.050	95.870	95.820	4930	202151

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.060	98.090	+0.040	98.110	98.030	6499	44353
Sep	98.040	98.080	+0.025	98.120	98.030	23922	79969
Dec	97.850	97.890	+0.020	97.940	97.850	14874	36731
Mar	97.800	97.810	+0.010	97.860	97.800	2507	18136

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		99.40	+0			0	n/a
Sep		99.39	-0.01			0	n/a
Dec	99.36	99.36	-0.02	99.36	99.36	900	n/a

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.755	95.740	-0.020	95.755	95.740	351	10675
Sep	95.750	95.745	-0.015	95.755	95.750	394	16019
Dec	95.950	95.930	-0.030	95.950	95.940	84	7266
Mar		95.840	-0.020			0	5182

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
95125	0.040			0.075		
95250	0.010	0.390	0.670	0.170	0.030	0.020
95375	0.005			0.290		

Est. vol. total, Calls 11436 Puts 5837. Previous day's open int., Calls 405821 Puts 304175

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 9		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.25	4.846	1.922	4775	5.462	20.39	495.7	411.4	21.44	4.022	1.664	3.972	2.723	382.1	2.459
Denmark	(DKr)	54.14	10	8.796	2.624	1.041	2585	2.957	11.04	268.4	222.7	11.61	2.177	0.901	2.150	1.474	206.9	1.331
France	(FFr)	61.55	11.37	10	2.983	1.183	2939	3.362	12.55	305.1	253.2	13.20	2.476	1.024	2.445	1.676	235.2	1.513
Germany	(DM)	20.63	3.811	3.352	1	0.397	985.3	1.127	4.206	102.3	84.89	4.425	0.830	0.343	0.820	0.562	78.85	0.507
Ireland	(I£)	52.02	9.609	8.452	2.521	1	2484	2.841	10.60	257.9	214.0	11.16	2.092	0.866	2.066	1.417	198.8	1.279
Italy	(L)	2.094	0.387	0.340	0.101	0.040	100	0.114	0.427	10.38	8.616	0.449	0.084	0.035	0.083	0.057	8.002	0.052
Netherlands	(Fl)	18.31	3.382	2.975	0.887	0.352	874.3	1	3.732	90.75	75.32	3.926	0.736	0.305	0.727	0.499	69.96	0.450
Norway	(NKr)	49.05	9.061	7.970	2.377	0.943	2342	2.679	10	243.2	201.8	10.52	1.973	0.816	1.948	1.336	187.4	1.206
Portugal	(Es)	20.17	3.726	3.278	0.978	0.388	963.3	1.102	4.112	100	83.00	4.326	0.811	0.336	0.801	0.549	77.09	0.496
Spain	(Pta)	24.31	4.490	3.949	1.178	0.467	1161	1.328	4.955	120.5	100	5.212	0.978	0.404	0.965	0.662	92.88	0.598
Sweden	(SKr)	46.63	8.614	7.577	2.260	0.896	2227	2.547	9.506	231.2	191.9	10	1.876	0.776	1.852	1.270	178.2	1.147
Switzerland	(SFr)	24.86	4.593	4.040	1.205	0.478	1187	1.358	5.068	123.2	102.3	5.332	1	0.414	0.987	0.677	95.01	0.611
UK	(£)	60.10	11.10	9.765	2.913	1.155	2870	3.283	12.25	297.9	247.3	12.89	2.417	1	2.387	1.637	229.7	1.478
Canada	(C$)	25.18	4.651	4.091	1.220	0.484	1202	1.375	5.133	124.8	103.6	5.399	1.013	0.419	1	0.686	96.21	0.619
USA	($)	36.72	6.783	5.966	1.780	0.706	1754	2.006	7.486	182.0	151.1	7.874	1.477	0.611	1.458	1	140.3	0.903
Japan	(Y)	26.17	4.834	4.252	1.268	0.503	1250	1.429	5.335	129.7	107.7	5.612	1.053	0.435	1.039	0.713	100	0.644
Ecu	-	40.67	7.512	6.607	1.971	0.782	1942	2.221	8.290	201.6	167.3	8.721	1.636	0.677	1.615	1.108	155.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5621	0.5619	-0.0002	0.5633	0.5615	37,300	82,158
Sep	0.5650	0.5648	-0.0002	0.5664	0.5643	36,518	85,926
Dec	-	0.5679	-	-	-	15	399

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6765	0.6778	+0.0013	0.6798	0.6764	19,548	47,498
Sep	0.6827	0.6842	+0.0015	0.6852	0.6815	21,780	28,692
Dec	-	0.6900	+0.0010	0.6900	-	19	70

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7115	0.7144	+0.0028	0.7158	0.7089	47,577	75,542
Sep	0.7209	0.7238	+0.0029	0.7250	0.7178	52,353	73,543
Dec	0.7301	0.7335	+0.0032	0.7335	0.7301	65	721

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6334	1.6366	+0.0044	1.6380	1.6314	14,162	36,669
Sep	1.6252	1.6270	+0.0026	1.6304	1.6230	16,114	24,770
Dec	-	1.6220	+0.0052	1.6220	-	2	186

UK INTEREST RATES

LONDON MONEY RATES

Jun 9	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	10 - 6½	7¾ - 7¼	7⅞ - 7¾	7⅞ - 7¾	7¾ - 7⅝	7¾ - 7⅝
Sterling CDs	-	-	7⅞ - 7⅞	7¾ - 7⅝	7¾ - 7⅝	7⅞ - 7½
Treasury Bills	-	-	7½ - 7¼	7½ - 7¼	-	-
Bank Bills	-	-	7½ - 7⅞	7½ - 7⅞	7½ - 7⅞	-
Local authority deps.	7¾ - 5	7¾ - 7⅝	7¾ - 7⅝	7⅞ - 7¾	7¾ - 7⅝	7⅞ - 7⅝
Discount Market deps	7⅞ - 7½	7⅞ - 7¾	-	-	-	-

UK clearing bank base lending rate 7½ per cent from Jun 4, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Jun 5, 7.2198pc. ECGD fixed rate Stlg. Export Finance. Make up day May 29, 1998. Agreed rate for period Jun 24, 1998 to Jul 25, 1998, Scheme III 8.72pc. Reference rate for period May 1, 1998 to May 29, 1998, Scheme IV & V 7.477pc. Finance House Base Rate 8pc from Jun 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.300	92.290	-0.005	92.310	92.280	18927	147178
Sep	92.350	92.330	-0.015	92.360	92.310	26394	137858
Dec	92.510	92.450	-0.045	92.520	92.430	48898	147375
Mar	92.700	92.650	-0.045	92.720	92.630	26336	115211
Jun	92.920	92.870	-0.050	92.940	92.860	7035	83611

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
92375	0			0.085		
92500	0	0.030	0.130	0.210	0.200	0.180
92625	0			0.335		

Est. vol. total, Calls 30058 Puts 38958. Previous day's open int., Calls 445468 Puts 338698

EMS EUROPEAN CURRENCY UNIT RATES

Jun 9	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	333.308	-0.877	-6.64	8.68	44
Ireland	0.796244	0.781022	+0.000732	-1.91	1.54	13
Italy	1957.61	1939.29	+0.17	-0.94	0.54	7
Spain	168.220	167.153	+0.05	-0.63	0.24	4
Denmark	7.54257	7.49916	+0.00151	-0.58	0.18	4
Portugal	202.692	201.626	+0.049	-0.53	0.13	4
Finland	6.01125	5.98389	+0.00187	-0.46	0.06	3
France	6.63188	6.60183	+0.00194	-0.45	0.06	4
Germany	1.97738	1.96875	+0.00054	-0.44	0.04	4
Austria	13.9119	13.8526	+0.0044	-0.43	0.03	3
Belgium	40.7844	40.6143	+0.0134	-0.42	0.02	3
Netherlands	2.22799	2.21914	+0.00074	-0.40	0.00	3
NON ERM MEMBERS						
UK	0.653644	0.677440	-0.001318	3.64	-3.90	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.630	0.53	1.28	2.02	0.33	1.28	2.04
1.640	0.14	0.85	1.57	0.95	1.86	2.55
1.650	0.02	0.53	1.19	1.79	2.51	-

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
0.560	0.32	0.71	1.05	0.10	0.41	0.64
0.565	0.09	0.46	0.78	0.37	0.66	0.88
0.570	0.02	0.28	0.57	0.79	0.98	1.18

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.31	94.30	-0.01	94.31	94.30	41,946	396,818
Sep	94.27	94.25	-0.02	94.27	94.25	32,171	491,862
Dec	94.19	94.17	-0.02	94.19	94.17	36,875	387,105

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.99	94.99	+0.01	94.99	94.98	194	1,899
Sep	94.93	94.94	-	94.94	94.93	260	2,506
Dec	95.00	94.97	-	-	94.97	2	120

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
96375	0.045				0.025			
96500	0	0	0.005	0.010	0.105	0.295	0.300	0.305
96625	0				0.230			
96750	0	0	0	0	0.355	0.545	0.545	0.545

Est. vol. total, Calls 23040 Puts 81374. Previous day's open int., Calls 400308 Puts 479710

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
98250	0.005	0.090	0.130	0.165	0.280	0.490
98375	0			0.285		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 30858 Puts 10882

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	●Smith & Williamson	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	Sun Bank	7.50
Banco Bilbao Vizcaya	7.50	●Guinness Mahon	7.50	TSB	7.50
Bank of Cyprus	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Ireland	7.25	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of India	7.25	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of Scotland	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Barclays Bank	7.50	Hongkong & Shanghai	7.50		
Brit Bk of Mid East	7.50	Investec Bank (UK) Ltd	7.50		
●Brown Shipley & Co Ltd	7.50	Julian Hodge Bank	7.50		
Citibank NA	7.50	●Leopold Joseph & Sons	7.50		
Clydesdale Bank	7.50	Lloyds Bank	7.50		
The Co-operative Bank	7.50	Midland Bank	7.50		
Coutts & Co	7.50	NatWestminster	7.50		
Cyprus Popular Bank	7.50	●Rea Brothers	7.50		
Duncan Lawrie	7.50	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.50		

● Members of London Investment Banking Association

NOTICE TO HOLDERS OF

UNITED MICROELECTRONICS CORPORATION

US\$160,000,000 1.25% Bonds Due 2004 (the "Bonds")

Pursuant to Clause 6 of the Trust Deed between the Trustee and United Microelectronics Corporation (the "Company") dated June 8, 1994 (the "Trust Deed"), we hereby notify you that:

(1) Pursuant to the resolutions adopted at the Company's annual meeting of shareholders held on May 5, 1998, the Company will distribute a stock dividend of 0.29 common shares for each common share held by a shareholder. The record date for the dividend distribution (the "Record Date") is set on June 16, 1998. The current conversion price of the Bonds, in accordance with Clause 7(B) of the Trust Deed, shall be adjusted from NT\$19 to NT\$15*. The conversion price after adjustment will take effect as of June 17, 1998.

(2) Pursuant to Article 165 of the ROC Company Law, the Company must close its shareholders' register for recordation for a period of 5 days prior to the Record Date. Therefore, no shareholder registration will be made on the Company's Shareholders' Register between June 12 to June 16, 1998. In addition, no conversion from Bondholders will be accepted by the Company during the said period.

(3) Pursuant to Condition 6(B)(iv) of the Terms and Conditions of the Bonds, the Company will issue and deliver by July 6, 1998 additional 290 Entitlement Certificates against each 1,000 Entitlement Certificates received or to be received by a Bondholder who exercises the conversion right prior to June 12, 1998.

*Note: Pursuant to Clause 7(P) of the Trust Deed, all calculation for adjustment of the conversion price shall be made to the nearest N.T. Dollar with half or more of a N.T. Dollar to be considered one N.T. Dollar.

UNITED MICROELECTRONICS CORPORATION

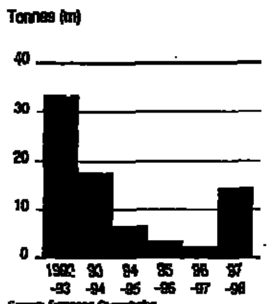
By: /s/ Robert Tsao

Chairman

FARMING MOVE TO CURB GRAIN STOCKS

Brussels to back increase in set-aside

By Michael Smith in Brussels



The European Commission is today expected to back controversial proposals for a big increase in the amount of arable land to be taken out of production next year in an effort to curb an expansion in grain stocks.

It will consider a "set-aside" level of 10 per cent or 12 per cent. That compares with the existing 5 per cent and would be the first increase since compulsory set-aside was introduced in 1993 as part of a reform of the Common Agricultural Policy.

The commission's decision will set the scene for a heated debate at a meeting of agricultural ministers later this month. Germany is in favour of a doubling of set-aside but France is strongly opposed.

The debate is sensitive because the commission, the European Union's executive, wants the set-aside system to be in effect ended in 2000 as part of a new round of CAP reforms.

The so-called Agenda 2000 plans for CAP reform aim to make EU grain fully competitive on world markets, increasing the potential for exports and making set-aside redundant.

Many farmers oppose abolition and say the commission's plans will not compensate them fully for a loss of set-aside payments.

The compulsory set-aside system was set up as part of the last big reform of the CAP. The system initially involved 15 per cent of grain land, but has been progressively reduced since its introduction and has been operating at 5 per cent for the past two years.

The system has achieved its aim of reducing grain stocks, which fell from 33m tonnes in 1993 to 3.5m tonnes by 1996. However, the commission says stocks will be up to 14.8m tonnes by the end of this month, and without a change in the 5 per cent set-aside rate stocks will rise to 30m tonnes in 1999-2000.

World prices have been depressed recently and the EU's problems have been compounded by higher output, particularly of coarse grain, from central Europe.

Today's meeting of the 20 EU commissioners is said to be more likely to back 10 per cent than 12 per cent, though it is possible that a lower level could be agreed.

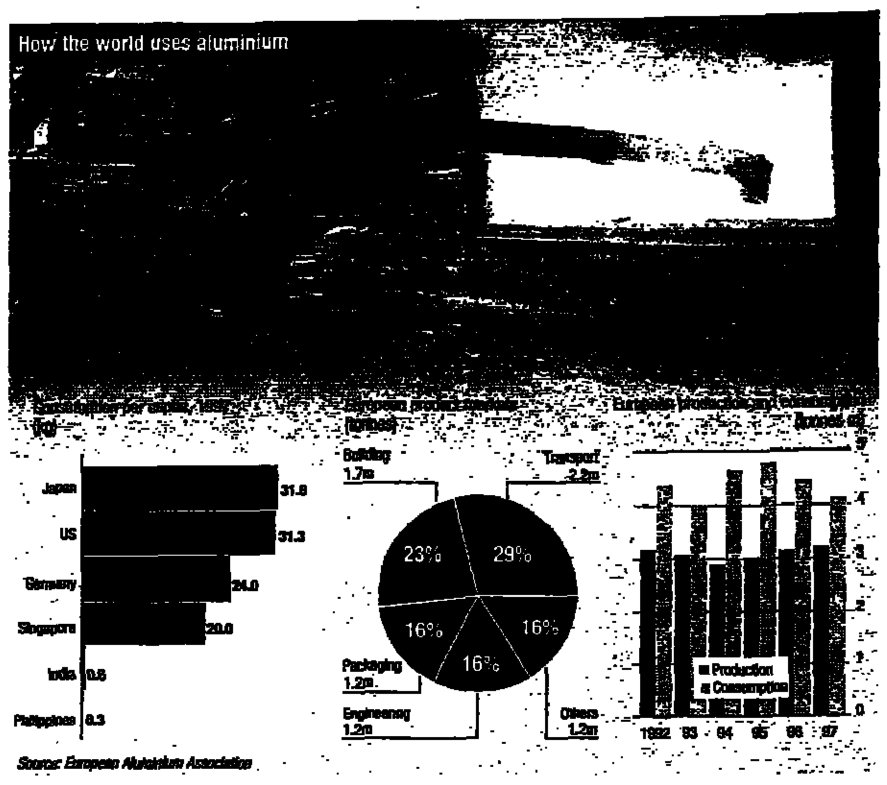
The final decision will be made by farm ministers, and analysts say they are unlikely to agree to more than 8 per cent.

Farmers in France, Europe's biggest grain grower, believe they can export the crops grown on land the commission wants to set aside. Germany supports a doubling of set-aside to prevent a collapse in prices hitting its small farmers. It is backed by Austria.

With the rate at 5 per cent, about 1.9m hectares of EU grain land are kept out of production.

Aluminium group split on EU levy

By Kenneth Gooding in Brussels



Aluminium production in western Europe could not keep pace with soaring demand last year, leaving a bigger gap than ever to be filled by imports, according to European Aluminium Association statistics. The EAA indicated yesterday there were signs the gap would widen in 1998.

This will provide more ammunition for those in the industry fighting for abolition of the European Union's 6 per cent import duty on the metal.

The association remains irreparably split on the issue with two substantial members taking opposing views.

Pechiney of France, Europe's biggest producer of primary aluminium, is implacably against removal of the duty, while Alcan of Canada, the world's second largest producer, is leading a campaign against the duty.

The EAA reported yesterday that primary aluminium consumption in western Europe last year jumped by 11.2 per cent to 5.47m tonnes while production increased by a more modest 3.5 per cent to 3.3m tonnes.

Consequently, imports of the metal rose from about 1.75m tonnes to 2.2m.

Kurt Wolfensberger, chairman of the EAA, said there would be a further increase in consumption this year because "the lively market continued into 1998". Production would be only slightly higher.

Mr Wolfensberger said there was "no visible impact" on the European aluminium industry from the Asian economic crisis and that aluminium prices had been forced down too far by worries about Asia.

Present "grossly depressed" prices were likely to hold back investment needed in new production capacity, he added.

"World aluminium demand [this year] will strongly benefit from the accelerating pace of the European business cycle. The financial problems of the Far East are not expected to seriously affect global aluminium demand as in most south-east Asian countries per capita consumption is still relatively low, albeit on the increase," he said.

Although western world aluminium consumption, which grew by 6 per cent in 1997, was likely to stagnate this year, supply and demand would remain in balance, he insisted.

Mr Wolfensberger said the transport, building and construction industries, together with packaging, continued to be the main markets for aluminium and use of the metal in engineering and electrical engineering also showed excellent growth.

In the past 10 years, the aluminium content in an average car had increased by more than 30 per cent, from 60kg to 85kg. Driven by the significant weight reduction aluminium offers, car makers would almost certainly increase their use of the metal and he had every confidence in forecasts that the average car would contain 130kg by 2005 – another 52 per cent increase.

The industry was also benefiting from a dramatic rise in the number of fast ferries and cruise ships coming into service. Aluminium had become the main material for fast ferries, which are "weight critical structures" capable of operating at speeds up to 55 knots.

Aluminium was also being used for the superstructures of new cruise ships because "the popularity of sea-facing cabins with balconies has made it essential to lighten the upper decks of these huge vessels to maintain stability".

Aircraft were another big market for aluminium. The association predicted an annual growth rate of 800 to 900 commercial aircraft with 100 seats or more compared with 400 in 1995.

India misses target for mango exports

By Kanal Bose in Calcutta

Failed crops have thwarted India's ambition to lift mango exports by 25 per cent to 33,750 tonnes this season.

"The target given by the Agricultural and Processed Fruits Exports Development Authority earlier this season has become irrelevant, as the foreign buyers are complaining about the high prices of Indian mangoes," said Om Ladia, a trade official. "Besides the short crop, the quality of Indian mangoes is not up to the mark this season," he added.

India is the world's largest producer of mangoes but the country's mango-producing states say the crop will be less than 7m tonnes this year compared with nearly 11m tonnes in 1996-97.

Production of Alphonso, Totapuri, Banganapalli and Badami mangoes, which are exported to the UK, the Middle East and south-east Asia, has fallen 70-75 per cent, and prices are up between 100 per cent and 200 per cent.

The crop devastation is being blamed on unseasonal rain in November and December, which caused less flowering and pollination. Hail storms and high temperatures in February and March damaged crops in Andhra Pradesh, Maharasdhra, Tamil Nadu and Uttar Pradesh. Crops were also lost through blossom blight and other viruses.

The acute shortage of mangoes and rising prices has put pressure on the farmers to harvest the crop while it is still too green. According to the Andhra Predesh horticultural department, early harvesting has harmed the fruit quality.

"We are looking at the current year as a bad dream," said an exporter. "India, which produces more than 250 varieties of mango and which accounts for more than 60 per cent of the world crop in a normal year, should be able to give a big boost to export next year," he said.

Trade officials want government support to popularise Indian mangoes in the EU and the US.

However, scientists say future export success will depend on India's ability to introduce vigorous quarantine procedures and post-harvest technology. The post-harvest loss of mangoes in India is 45 per cent.

Gold falls on ECB reserves consensus

MARKETS REPORT

By Kenneth Gooding and Robert Corzine

Gold dropped sharply yesterday after Wim Duisenberg, president of the European Central Bank said that, although a decision still had to be made about the amount of gold to be in the new bank's reserves, a consensus among central bank governors was that the metal should represent 10-15 per cent of reserves.

The price, which had risen strongly this week and reached $298 a troy ounce at one point yesterday, fell to $292.30 before recovering a little in late London trading.

"Some may argue that the central bank consensus is disappointing," said Alex Wood at Flemings Global Mining Group, "but a vote against gold would have been disastrous."

Brokers GNI argued that the reserve issue was a red herring. It said: "The real issue is the degree to which national central banks can conduct transactions without informing the ECB."

GNI said that greater autonomy among the banks would probably lead to bigger quantities of gold being sold.

Crude oil prices also fell sharply. Brent Blend for July delivery was quoted at $13.42 a barrel in late trading on the International Petroleum Exchange, down 80 cents on Monday's close.

The fall coincided with intense Saudi efforts to secure additional commitments from Gulf oil exporters to cut output.

Ali Naimi, the Saudi oil minister, said he was confident other producers would add to the 450,000 barrel a day cut agreed last week during secret talks in Amsterdam between Naimi and his Mexican and Venezuelan counterparts.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1312.5-3.5	1341-1.5
Previous	1318-19	1346.5-47.5
High/low		1347/1333
AM Official	1315.5-16.0	1345-45.5
Kerb close		1335-6
Open int.	287,672	
Total daily turnover	71,870	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1230-35	1225-30
Previous	1238-43	1235-38
High/low		1235/1225
AM Official	1245-50	1235-38
Kerb close		1223-5
Open int.	8,494	
Total daily turnover	3,415	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	531-2	545-6
Previous	529-30	543-44
High/low		549/543
AM Official	534-35	546.5-47.5
Kerb close		543-4
Open int.	37,717	
Total daily turnover	7,674	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4585-95	4660-65
Previous	4585-95	4660-70
High/low		4750/4640
AM Official	4605-10	4685-90
Kerb close		4645-50
Open int.	54,715	
Total daily turnover	25,523	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6195-205	6040-50
Previous	6070-80	5980-85
High/low		6070/5985
AM Official	6240-50	6070-75
Kerb close		6040-50
Open int.	17,902	
Total daily turnover	4,497	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1014-5	1039-40
Previous	1005.5-06.5	1031-32
High/low		1043/1033
AM Official	1116.5-17.0	1041-41.5
Kerb close		1038-9
Open int.	86,963	
Total daily turnover	30,703	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1705-6	1711-2
Previous	1672.5-73.5	1683-84
High/low		1722/1693
AM Official	1707.5-08.0	1713-14
Kerb close		1695/1606
Open int.	178,052	
Total daily turnover	75,528	

■ LME AM Official £/$ rate: 1.6361
LME Closing £/$ rate: 1.6358

Spot: 1.6338 3 mths: 1.6261 6 mths: 1.6183 9 mths: 1.6121

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	76.25	+0.05	77.70	76.25	321	1,495
Jul	76.35	-0.15	78.10	75.80	4,349	30,135
Aug	76.65	-0.15	75.90	75.90	69	2,215
Sep	76.85	-0.25	78.50	76.40	533	8,435
Oct	77.15	-0.25	77.80	77.80	337	1,929
Nov	77.20	-0.25	77.80	77.40	22	1,441
Total					6,627	68,489

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	293.00-293.50		
Opening	295.30-295.50		
Morning fix	296.25	181.237	436.969
Afternoon fix	297.60	181.740	439.258
Day's High	298.80-299.10		
Day's Low	292.50-292.80		
Previous close	293.30-293.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.41	6 months	4.12
2 months	4.32	12 months	3.79
3 months	4.28		

Silver Fix	p/troy oz.	US cts equiv.
Spot	546.00	334.05
3 months	-	-
6 months	-	-
1 year	-	-

Gold Coins	$ price	£ equiv.
Krugerrand	289-293	176-178
Maple Leaf	-	-
New Sovereign	67-71	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	293.2	-2.8	299.0	293.1	192	577
Aug	295.5	-2.9	301.0	294.4	42,250	83,868
Oct	297.7	-2.9	302.6	296.7	196	6,414
Dec	299.7	-2.9	305.0	298.7	218	21,716
Feb	301.4	-3.0	305.3	301.0	101	10,451
Apr	303.2	-3.0	304.0	304.0	31	7,858
Total					43,000	169,823

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	359.0	-5.2	367.0	356.5	1,454	9,221
Oct	359.0	-6.0	367.0	357.0	136	2,272
Jan	358.2	-6.0	369.0	369.0	32	105
Apr	357.2	-6.0	360.0	360.0	1	12
Total					1,596	11,613

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	305.50	-6.55	310.00	300.00	35	288
Sep	288.00	+0.95	292.00	282.00	162	3,200
Dec	280.50	+0.95	-	-	22	950
Total					197	4,456

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	532.0	-9.8	548.0	529.0	17,581	56,226
Sep	535.9	-9.8	551.5	535.0	853	13,679
Dec	539.4	-9.9	554.5	537.0	675	14,756
Jan	540.2	-9.9	-	-	10	26
Mar	540.9	-10.0	552.0	543.0	28	3,148
May	541.8	-10.1	-	541.5	27	815
Total					19,169	98,884

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	14.18	-0.37	14.55	14.15	54,592	97,141
Aug	15.00	-0.28	15.27	14.95	34,719	82,713
Sep	15.68	-0.23	15.90	15.68	13,911	48,675
Oct	16.23	-0.11	16.35	16.22	6,226	25,071
Nov	16.51	-0.17	16.64	16.51	1,386	14,224
Dec	16.80	-0.16	16.90	16.75	3,867	44,410
Total					118,179	468,857

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	14.08	-0.14	14.24	13.94	17,119	55,869
Aug	14.57	-0.09	14.70	14.43	11,608	58,905
Sep	14.92	-0.08	15.00	14.81	3,576	20,358
Oct	15.23	-0.12	15.27	15.10	853	15,488
Nov	15.44	-0.13	15.48	15.44	462	10,266
Dec	15.72	+0.02	15.72	15.55	2,027	35,974
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	38.95	-0.15	39.50	38.55	15,858	52,269
Aug	40.40	-0.06	40.70	39.95	8,205	28,009
Sep	41.80	-0.21	42.20	41.55	3,748	13,984
Oct	43.50	-0.01	43.70	43.15	2,046	12,248
Nov	45.00	+0.09	45.10	44.60	1,547	11,751
Dec	46.05	-0.21	46.35	45.90	5,163	21,506
Total					39,230	190,392

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	118.50	-1.75	120.25	117.50	7,180	16,154
Jul	122.50	-1.50	123.75	121.25	9,496	29,598
Aug	128.00	-1.75	127.25	125.25	1,949	12,735
Sep	130.25	-1.50	131.25	129.00	1,081	11,494
Oct	134.25	-1.25	135.00	132.75	530	12,624
Nov	137.75	-0.75	138.00	136.00	397	9,924
Total					23,980	152,218

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	9.050	+0.060	9.050	9.050	140	1,065
Aug	8.990	+0.040	-	-	-	935
Total					1,225	18,345

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.020	+0.044	2.030	1.960	18,810	45,929
Aug	2.050	+0.030	2.085	2.005	7,361	27,546
Sep	2.100	+0.028	2.110	2.060	2,652	18,732
Oct	2.155	+0.026	2.180	2.120	2,301	19,751
Nov	2.360	+0.027	2.365	2.330	1,860	15,512
Dec	2.558	+0.025	2.580	2.530	2,393	21,065
Total					41,862	258,865

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	47.85	-0.40	48.65	47.85	20,247	41,946
Aug	48.90	-0.40	49.60	48.75	7,719	23,329
Sep	49.50	-0.33	50.00	49.45	1,710	17,929
Oct	49.10	-0.25	49.10	49.10	596	6,837
Nov	49.65	-	-	-	27	2,880
Dec	49.10	-0.20	49.10	49.10	133	4,357
Total					30,480	160,209

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	74.35	-0.50	74.75	74.35	95	1,134
Sep	75.90	-0.60	-	-	-	188
Nov	77.90	-0.60	78.00	77.90	130	3,550
Jan	79.80	-0.60	79.90	79.75	45	758
Mar	81.90	-0.60	81.90	81.75	60	439
Total					n/a	n/a

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	278.00	+2.50	279.00	274.50	12,016	56,814
Sep	289.50	+2.00	290.25	286.00	4,872	22,147
Dec	305.00	+2.25	306.50	301.50	3,056	29,458
Mar	319.50	+2.00	320.00	315.50	162	7,589
May	325.00	-	325.00	325.00	75	1,046
Jul	334.50	+1.50	333.50	332.50	148	649
Total					20,329	117,763

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	232.00	-0.50	233.00	230.75	34,555	128,109
Sep	236.25	+0.50	236.75	234.75	8,469	53,820
Dec	240.00	+1.25	240.25	237.50	26,969	127,418
Mar	248.25	+1.00	248.50	246.50	2,541	14,955
May	254.00	+1.25	254.00	252.00	1,070	3,257
Jul	258.75	+0.50	259.00	257.25	2,408	6,455
Total					76,601	337,155

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	72.75	-0.75	-	-	-	24
Nov	74.75	-0.75	75.00	75.00	-	827
Jan	76.75	-0.75	-	-	-	182
Mar	78.75	-0.75	-	-	-	42
May	80.25	-0.75	-	-	-	11
Total					n/a	n/a

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	609.00	-2.25	612.75	606.50	23,816	55,930
Aug	597.25	-2.00	600.75	594.00	2,684	23,001
Sep	579.25	-0.75	581.50	575.50	1,751	8,056
Nov	574.50	-1.50	576.75	570.00	13,843	51,283
Jan	581.50	-1.50	583.50	578.00	728	4,967
Mar	569.00	-1.50	590.50	585.00	351	1,909
Total					43,671	148,307

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	25.77	+0.16	25.88	25.60	10,409	47,183
Aug	25.96	+0.10	26.05	25.81	5,169	29,610
Sep	26.06	+0.08	26.17	25.95	1,923	19,282
Oct	26.00	-	26.17	25.95	552	10,095
Dec	25.78	-0.10	26.02	25.75	2,764	32,702
Jan	25.78	-0.14	26.05	25.70	647	3,186
Total					21,804	145,728

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	153.7	-0.5	155.8	152.5	15,786	41,397
Aug	150.1	-0.3	151.7	148.8	5,968	24,373
Sep	148.4	+0.1	149.3	146.9	3,302	17,110
Oct	146.9	+0.2	148.0	145.2	875	13,150
Dec	148.5	-0.2	149.3	147.0	5,306	34,512
Jan	149.9	-0.4	150.8	148.7	708	4,811
Total					32,498	140,114

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	79.0	-1.0	-	-	-	3
Mar	118.0	-1.0	-	-	-	-
Apr	148.0	-1.0	148.0	148.0	12	1,520
May	158.0	-1.0	-	-	-	29
Jun	168.0	-1.0	-	-	-	-
Total					n/a	n/a

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	855	+15	850	850	3	77
Jul	850	+15	860	850	67	451
Oct	970	+20	970	970	3	376
Jan	985	-	-	-	-	133
Apr	1040	-	-	-	-	-
Total					n/a	n/a

	Close	Prev
BFI	n/a	883

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	470.25	+5.25	470.25	470.25	43	227
Sep	508.00	-6.00	510.50	508.00	22	640
Total					75	1,109

FUTURES DATA
All futures data supplied by CMS.

Tea
Mombasa: There was less general demand at progressively lower rates. Brighter BPIs were easier by 5-25 cents with mediums lower by up to 15 cents. Lower mediums declined by 5 cents to 25 cents with plainer sorts easier by about 10-20 per cents. Brighter and medium PF1s depreciated by 10-40 cents with some lighter medium sorts neglected. Lower mediums declined by 5-30 cents. Plainer sorts were irregular but on balance a little easier. A few lines of of brighter P.Dusts sold at dearer rates but others and all mediums were irregularly easier by up to 30 cents and sometimes more. Plainer sorts were irregular.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1074	+14	1076	1057	2,861	19,907
Sep	1099	+13	1100	1082	2,057	23,913
Dec	1123	+13	1125	1107	2,777	34,307
Mar	1142	+13	1144	1127	351	36,682
May	1155	+13	1146	1140	167	13,355
Jul	1168	+13	1154	1154	19	6,351
Total					n/a	n/a

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1619	+31	1623	1590	3,847	17,940
Sep	1646	+31	1649	1617	2,937	19,395
Dec	1678	+32	1681	1648	1,499	17,448
Mar	1704	+32	1693	1676	545	11,069
May	1724	+32	1709	1706	114	4,021
Jul	1743	+32	1728	1728	-	1,573
Total					8,828	79,193

■ COCOA (ICCO) (SDR's/tonne)

Jun 8	Price	Prev. day
Daily	1263.35	1270.52

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1765	+12	1769	1730	2,756	17,396
Sep	1751	+11	1753	1718	2,137	12,930
Nov	1739	+12	1720	1700	245	3,988
Jan	1705	+13	1695	1682	49	576
Mar	1685	+13	-	-	-	429
May	1685	+13	-	-	-	80
Total					n/a	n/a

■ COFFEE "C" CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	121.55	+1.70	123.80	120.55	6,479	14,809
Sep	122.55	+2.05	123.75	121.25	4,641	9,502
Dec	121.75	+2.15	123.00	120.25	1,418	8,074
Mar	120.50	+2.90	121.00	118.25	649	2,757
May	120.00	+2.95	119.75	117.50	198	1,557
Jul	119.50	+3.20	120.00	117.00	60	804
Total					13,886	38,371

■ COFFEE (ICO) (US cents/pound)

Jun 8		Prev. day
Comp. daily	106.33	108.92
15 day average	112.30	112.75

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	247.7	-1.6	250.0	247.5	1,769	16,445
Oct	239.7	-4.3	244.5	239.7	2,185	14,230
Dec	242.1	-4.6	247.0	242.9	306	2,356
Mar	248.1	-3.6	251.0	248.0	466	3,353
May	251.6	-3.8	253.5	252.1	186	768
Aug	255.1	-4.3	258.0	255.6	130	342
Total					n/a	n/a

■ SUGAR "11" CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	7.55	-0.31	7.85	7.54	10,558	76,888
Oct	7.90	-0.25	8.13	7.89	5,870	68,642
Mar	8.53	-0.23	8.76	8.53	1,796	30,700
May	8.65	-0.17	8.80	8.63	722	4,576
Jul	8.75	-0.13	8.85	8.73	268	3,906
Oct	8.78	-0.12	8.90	8.78	26	4,807
Total					19,513	182,909

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.96	-2.43	75.50	72.39	11,725	26,216
Oct	74.03	-1.99	76.40	73.02	1,724	4,660
Dec	73.85	-1.52	75.50	72.75	17,330	43,646
Mar	73.65	-1.65	75.50	72.80	1,045	8,120
May	73.63	-1.62	75.50	73.00	926	5,022
Total					33,291	94,871

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	103.00	-2.15	105.40	102.50	1,803	17,638
Sep	107.20	-1.80	109.10	106.50	462	8,025
Nov	110.05	-1.60	112.30	110.00	76	4,738
Jan	112.95	-1.60	113.75	112.25	-	2,211
Mar	115.40	-1.45	116.50	116.50	-	1,119
May	118.15	-1.30	119.25	119.25	-	680
Total					2,342	34,680

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 9	Jun 8	month ago	year ago
1570.6	1574.8	1630.0	2015.6

■ CRB Futures (Base: 1967 = 100)

Jun 8	Jun 5	month ago	year ago
214.05	214.05	-	-

■ GSCI Spot (Base: 1970 = 100)

Jun 8	Jun 5	month ago	year ago
154.64	156.44	163.84	187.77

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-275	to	549,150
Aluminium alloy	-40	to	52,420
Copper	-100	to	280,675
Lead	-400	to	105,550
Nickel	-402	to	61,770
Zinc	-2,625	to	424,925
Tin	-190	to	4,825

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	65.575	+1.250	65.750	64.625	5,740	14,137
Aug	66.775	+0.850	66.975	66.100	4,732	41,478
Oct	65.925	+0.600	66.350	65.400	2,434	22,192
Dec	67.550	+0.450	68.025	67.200	595	6,712
Feb	68.850	+0.450	69.350	68.550	183	3,014
Apr	69.950	+0.325	70.400	69.950	75	944
Total					13,777	88,617

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	63.175	+0.225	63.200	62.800	1,806	5,203
Jul	62.525	-0.050	62.900	62.150	4,696	11,026
Aug	59.175	-0.250	59.650	58.900	2,725	9,071
Oct	53.500	-0.150	53.600	53.050	490	4,707
Dec	53.225	-0.275	53.650	53.000	237	3,488
Feb	55.650	-0.275	55.950	55.600	54	883
Total					10,694	34,903

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	58.975	-2.650	61.900	58.850	2,590	3,629
Aug	56.700	-2.525	59.400	56.500	1,021	1,934
Feb	54.300	-2.600	56.850	53.900	18	22
Total					3,630	5,595

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1250	66	3	106	16
1300	29	16	72	31
1350	8	45	46	54
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
1600	106	11	141	48
1700	42	47	87	93
1800	11	116	49	153
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1650				
1700				
1750				
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1025				
1050				
1075				
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1400	5	-	10	-
1450	8	-	-	-
1500	-	-	120	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.88-2.98x	-0.13
Brent Blend (dated)	$12.66-2.71	-0.72
Brent Blend (Jul)	$13.86-3.91	-0.57
W.T.I.	$14.08-4.10x	-0.70

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

		+or-
Premium Gasoline	$159-161	
Gas Oil	$120-122	
Heavy Fuel Oil	$61-63	
Naphtha	$122-124	
Jet fuel	$130-131	
Diesel	$127-128	-1

■ NATURAL GAS (Pence/therm)

		+or-
Bacton (Jul)	9.00-9.05	

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

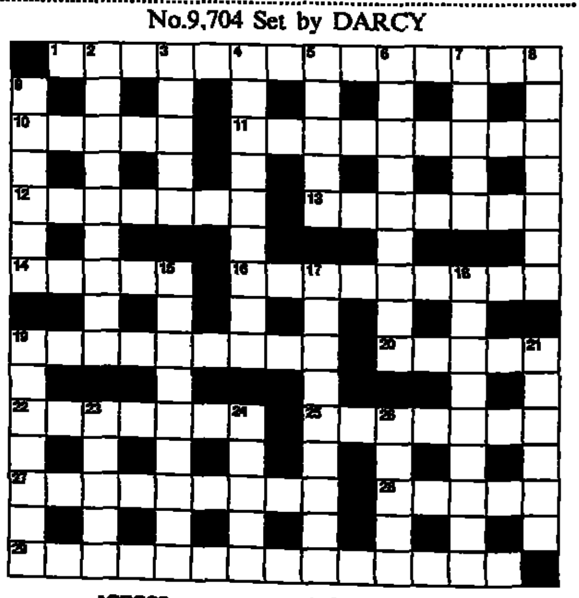
		+or-
Gold (per troy oz)♣	$293.25	-0.30
Silver (per troy oz)♣	546.0c	+20.5
Platinum (per troy oz.)	$364.00	+7.25
Palladium (per troy oz.)	$296.00	+4.00
Copper	82.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	22.54r	
Tin (New York)	294.5	+5.00
Cattle (live weight)	87.81p	+2.17*
Sheep (live weight)	132.55p	+2.60*
Pigs (live weight)†	65.22p	+0.13*
Lon. day sugar (raw)	$199.60	-5.70
Lon. day sugar (wte)	$257.50	-1.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	48.50p	
Rubber (Aug)♥	49.50p	
Rubber (KL RSS No1)	281.50m	-2.50
Coconut Oil (Phil)§	640.0y	-2.5
Palm Oil (Malay.)§	630.0y	
Copra (Phil)§	$425.0y	
Soyabeans (US)	167.0	
Cotton Outlook'A' index	68.05	+1.00
Wooltops (64s Super)	331p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jun/Jul. x Jul. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,532 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,704 Set by DARCY



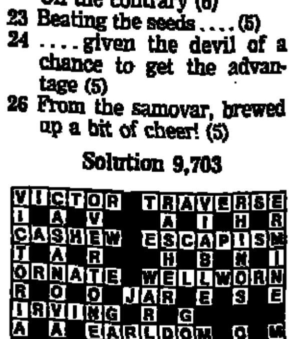
ACROSS

1 Display type of toiletry that should stop sweating (3-11)
10 Surprise defeat appears alien, after periods of success (5)
11 Series described thus – popular in trifling area (4,5)
12 About a dozen fluffs, forgetting old solo performance (7)
13 I resisted advances made, rejecting a red rose (7)
14 Have the benefit of having seen Joyce for a short spell (5)
16 "It" girls converted a queen – is this harder to swallow? (9)
19 Cause to go into the red, perhaps cheekily? (9)
20 Dismiss one result of deforestation (5)
22 Vulnerable divorcee was showing off (7)
25 In case of defamation, artist cited politician (7)
27 Relaxing when one has the time (2,7)
28 Legal, sacking leader of poor quality (5)
29 Possibly banker we backed worked hard to introduce innovation (5,3,6)

DOWN

2 Describing prisoner's post, identifying carefully planned crime (6,3)
3 Say "excuse me" and induce road rage? (3,2)
4 Lost again, frantically wanting to go home (9)
5 Some study Latin, going over where it originated (5)
6 Old Greek writer is gripping, therefore on the box (9)
7 Marks made where a vein has burst? (5)
8 With spiritual guidance, perhaps player makes a pile (7)
9 Easily aroused, mostly he finds a tart (6)
15 Standard comparable with London police staff (9)
17 Popular diving-birds fly up, left to nest in lonely peak (9)
18 Touched upon brief description of pain-killer (9)
19 You heard of writer Charles's most cherished possession? (3,4)
21 Continuously supply with beer to be drunk deeply? On the contrary (6)
23 Beating the seeds .... (5)
24 .... given the devil of a chance to get the advantage (5)
26 From the samovar, brewed up a bit of cheer! (5)

Solution 9,703



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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA
(FSA RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

BERMUDA
(REGULATED)(**)

GUERNSEY
(FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

PO Box 246, St Peter Port, Guernsey 01481 723021

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 348, St Peter Port, Guernsey 01481 723021

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 255, St Peter Port, Guernsey 01481 703681

GUERNSEY
(REGULATED)(**)

IRELAND
(FSA RECOGNISED)

BT Fund Managers (Ireland) Ltd (u)

Lazard Investment Funds Ltd - Contd.

Tilney (Ireland) Ltd

20/22 Lower Hatch Street, Dublin 2 00 3531 7905973

Baring Mutual (Ireland) Ltd

Fleming Private Fund Plc

Foreign & Colonial Emerging Markets Ltd

Foreign & Colonial Emerging Markets Ltd

Formosa High Tech Fund

Framlington Investment Mgmt (Ireland) Ltd

IRELAND
(REGULATED)(**)

ABN AMRO Global Liquidity Funds Plc (u)

AIB Fund Management Ltd

Frank Russell Investments (Ireland) Ltd

INVESTORS Fund Services (Ireland) Ltd

Value Express Fund Plc

ISLE OF MAN
(FSA RECOGNISED)

ISLE OF MAN
(REGULATED)(**)

JERSEY
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(FSA RECOGNISED)

ABN AMRO Funds

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Royal & Sun Alliance Intl Financial Services				
Royal Court, Arbory Rd, Castletown IoM 01624 821212				
Royal Skandia Life Assurance Ltd (z)				
01624 611 1971				
Scottish Equitable International SA				
Scottish Mutual International Plc				
Scottish Provident Intl Life Ass Ltd				
Scottish Widows International Ltd				
Sun Life International (IOM) Ltd				

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	+ or -	Yield Gross
AXA Asset Management				
Aberdeen Asset Management Asia Limited				
Ability Fund Limited				
Adelphi Europe Fund				
Alliance Capital				
Alpha Fund Management Ltd				
The Americas Trust Bank				
Asia Pacific Securities Corp Ltd				
Atlantic Investment Ltd				
Atlas Real Estate Hedge Fund Limited				
NAV Apr 30	$1118.4		—	-
Aureus Funds				
BEA Associates				
BNP				
Julius Baer Bank & Trust Co Ltd				
Baida Fund				
Banco Bilg. S.A. (Principality of Andorra)				
Banco do Brasil—BB Fund				
Banc Internacional D'Andorra Banca Mora				
Bank of America				
Bank of Nova Scotia Trust Co (Cayman) Ltd				
Barings Global Investors Hong Kong Ltd				
Capital International Fund				
Credit Agricole/INDOCAM				
Crystal Corporation N.V.				
Daiwa Intl Capital Management (H.K.) Ltd				
Barlar Basin Fund Management SA				
Delta Managed Funds Limited				
Deltec Panamerican Trust Company Ltd				
Deutsche Bank A.G.				
Discover Investment Management				
Dragon Securities Ltd				
Dresdner RCM Global Investors (HK) Ltd				
Dresdner Bank Investment Group				
Edinburgh Fund Managers (Bermuda) Ltd				
Emerging Markets Management				
Enskilda Trust SA				
The Environmental Investment Co Ltd				
Erlangers & Co Ltd				
Fidelity Investments				
Fleming Group				
Genesis Fund Managers Ltd				
Glaxo Capital Limited				
The Glenmore Property Fund Ltd				
Global Asset Management				
Global Fund Management S.A.				
Indocam Asia - Contd.				
INVESCO Asset Management				
Jardine Fleming Unit Trusts Ltd				
Jupiter Asset Management (Asia) Ltd				
KB Offshore Fund, C.V.				
Kleinwort Benson				
Kemper Management Limited - Contd.				
Korea International Investment Fund Ltd				
Lloyds Bank International				
Magnum Funds - Contd.				
Marshall Wace Asset Management Limited				
Merrill Lynch Asset Management				
Morgan Stanley Emerging Markets Income				
Northern Light Funds Limited				
Olympus Capital Management				
Optima Fund Management				
The Osprey Group Of Funds				
PFPC International Ltd				
Pacific Chartered Capital Mgmt Limited				
Pacific & General Investments Inc				
Prudential-Bache				
Putnam Emerging Health Sciences Trust				
Regent Fund Management Ltd				
Rothschild Asset Management				
SG Global Asset Management (Cayman) Ltd				
SEB Asset Management				
Schroder Investment Mgmt (Guernsey) Ltd				
Sinfra Fund Ltd				
Stone Robinson Investment Mgmt Ltd				
Scottish Asset Management Inc				
Sphere Ltd				
State Street Banque SA				
Stephens Group Partners				
Swiss Finance Global Funds				
Taipei Fund				
Templeton Global Advisors Ltd				
The Thai-Euro Fund Ltd				
The Thai Prime Fund Limited				
The Thailand Fund				
The Thailand Intl Fund Ltd				
Thornton Management Funds				
Tricor Capital Management				
UBS (Luxembourg) Ltd				
Ultra Quantum Fund NV				
Victory Capital Ltd				
The Wardlaw Frontier Fund				
Wardley Investment Services Ltd				
Zurich Investment Mgmt (Guernsey) Ltd				

FT MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

FTSE 100 TRANS

GUIDE TO LONDON SHARE SERVICE

FT Free Annual Reports Club

FT Company Focus / Focus Plus

FT Cityline

Footsie clings to 6,000 in spite of profit-taking

MARKET REPORT

By Peter John

Profit-taking rather than mixed economic data ensured that the London market came off the boil yesterday.

After pushing the FTSE 100 index up 177 points in the previous two sessions, traders were keen to take some of the heat out of the market.

Following a fall in the Hang Seng and some slippage in the New York equity market, London started weakly, setting the pattern for the day, but there were still some encouraging signs of strong support levels.

The Dow Jones Industrial Average held above 9,000 for the extent of the London trading session. And Footsie was down 34 points at worst, but it never dipped below 6,000.

The index ended the day 18 lower at 6,019.8, in spite of continued buying of the heavyweight pharmaceutical stocks. But the pressure at the top was not felt lower down the chain.

The FTSE 250 reached a new intra-day peak of 5,970.9 and ended the day 6.3 higher at 5,996.6, a new record close. The index responded to the latest bid in the hotel and brewing sectors.

News that Thistle Hotels had received an approach followed announcements late last week that Vaux and Ushers had also been approached. The SmallCap index also ended marginally higher.

Meanwhile a chart specialist at Investment Research of Cambridge said a breakout in the FTSE All-Share index suggested the broad index could now easily rise another 100 points.

A potential macro-economic impact on the market came from manufacturing and retail sales figures.

The British Retail Consortium said May's high street sales rose only 3.7 per cent year on year compared with the 5.7 per cent rise achieved in April.

"These figures," said Michael Saunders of Salomon Smith Barney, "together with the CBI retail survey, point to a further slowdown."

The anti-inflationary signal from the sales figures was slightly offset by a one per cent jump in industrial production in April, the biggest gain for almost a year.

However, that blip was accounted for by a 7 per cent increase in utilities output, seen as weather-related.

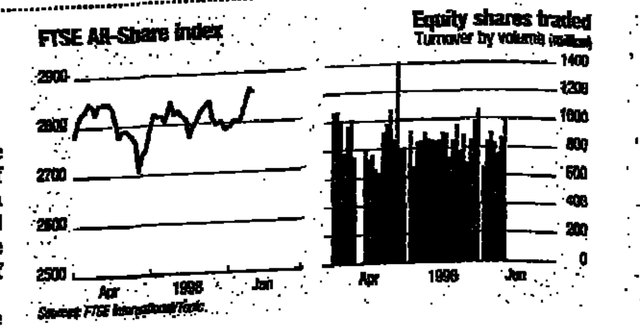
And one analyst said the annual growth rate was sliding into negative territory for the first time in almost two years, with output dropping in fuels, metal and food, drink and tobacco.

However, dealers said the market was principally treading water following Monday's sharp rise.

June is traditionally quiet and traders predict even more stagnation this year as the World Cup grabs the market's attention. There was also a lull ahead of today's speech by Alan Greenspan, the US Federal Reserve chairman, to the joint economic committee of Congress.

With investors hoping the UK has reached the top of its interest rate cycle, there will be keen interest in any hints about US rates.

Volume by 6pm was just under 1bn shares, relatively high by recent standards. The turnover was strongly skewed towards non-Footsie stocks. The blue-chip index accounted for 40 per cent of the day's total.



Indices and ratios

FTSE 100	6019.8	−18.0
FTSE 250	5966.6	+6.3
FTSE 350	2929.3	−6.5
FTSE All-Share	2882.45	−5.65
FTSE All-Share yield	2.75	2.75
FT 30	3930.8	−17.9
FTSE Non-Fins p/e	23.87	23.90
FTSE 100 Fut Jun	6023.0	−23.0
10 yr Gilt yield	5.77	5.75
Long gilt/equity yld ratio	2.10	2.10

Best performing sectors

1	Pharmaceuticals	+1.5
2	Leisure & Hotels	+1.1
3	Insurance	+1.0
4	Support Services	+0.8
5	Electronic & Elect Equip	+0.8

Worst performing sectors

1	Extractive Inds	−3.7
2	Resources	−2.0
3	Oil Integrated	−1.8
4	Engineering: Vehicles	−1.4
5	Oil Exploration	−1.1

Hotel bidders book in

COMPANIES REPORT

By Martin Brice and Joel Kibazo

The statement by Thistle that it had received a number of approaches boosted the bid speculation that has centred on the hotels sector this week.

Thistle was the best performing stock in the FTSE 250, as it rose almost 19 per cent or 37 to 237½p in busy trade of 8m. Some analysts have said the company is unlikely to be bought for less than 250p a share, while the emergence of other bidders could see the take-out price rise even further.

Takeover ferment spilled into the blue chips, with **Ladbroke** the best performer in the FTSE 100 as the shares gained almost 6 per cent or 19¼ to 355p as a brisk 9.4m changed hands.

Vaux, which has also been approached, gained 1½ to 356p while **Stakis**, seen as a potential bidder for the regional brewer, gained 5 to 138p. **Jarvis Hotels**, helped by strong results, was up 13½ at 191½p.

The sector is seen by analysts as ripe for consolidation, with hotel companies trading on low earnings multiples and US investors ready to seek out assets available for lower prices than currently seen at home.

Dresdner Kleinwort Benson, which has highlighted the probability of a move into the UK hotel market by US real estate investment trusts, yesterday advised clients to buy Stakis and Greenalls, which rose 8 to 538p. It also recommended Sears, from which Selfridges is to be demerged next month. Selfridges owns a 220-bed hotel. Sears, to which Kleinwort is broker, saw brisk trade of 2m although the shares were unchanged at 65¼p.

Investors piled into Glaxo Wellcome ahead of a keynote speech by the company's chief executive at a US global healthcare conference hosted by Goldman Sachs. The shares jumped 49 to £17.63 following busy trade of 6.1m.

Also, sector specialists are awaiting details about Glaxo's new Aids formulation at the international Aids conference in Geneva later this month.

The new drug, Abacivir, could be on the market by the end of this year and Goldman, which is positive on the stock, projects sales of around £450m per year.

However, not everyone is a fan of the international pharmaceuticals giant. Dresdner Kleinwort Benson was reported to have warned that interim results will be poor with both sales and operating profits down. It reiterated its "sell" stance.

The broker is also cautious on Zeneca and traders said it warned that first-half figures will be depressed by the cost of launching new products, particularly Accolate and Seroquel. Zeneca fell 26 to £26.34.

Kleinwort is positive on SmithKline Beecham, which improved 8 to 700p. The broker highlighted the attractions of the stock. It also upgraded its stance on the sector to neutral from underweight.

Dealers said Dresdner believes strong US economic growth will boost budgets for healthcare management organisations leading to higher spending on drugs.

The sector was also attractive for defensive reasons and the prospect of merger activity.

British Biotech continued to fall following an announcement by the company's own brokers on Monday that its 43p-a-share valuation could be too high. Yesterday the shares surrendered another 8½ to 39½p.

It was a poor session for two water companies that reported results yesterday.

Severn Trent recorded the the bigger fall of the two as the market expressed disappointment at underlying profits below market expectations. There was also disappointment at the lack of a share buy-back. The shares fell 46½ to 998½p.

Wessex drifts

A weaker-than-expected performance in its non-regulated activities disappointed dealers in Wessex Water, leaving the shares to drift down 4½ to 479½p.

Richard Alderman at Merrill Lynch advised clients to reduce holdings in both stocks suggesting a period of underperformance ahead of the sector pricing review for the period 2000 to 2005. The first consultative paper is due in October.

The recent surge in public transport stocks seemed to run out of steam as analysts suggested any good news from the forthcoming government white paper was already in the price of leading stocks, while reports that it had been postponed until the end of July weighed on sentiment.

Railtrack was off 53 at £13.57, one of the worst performances in the Footsie. Stagecoach, seen as likely to be in the Footsie later this month, was down 72½ at £13.90, one of the worst performances in the FTSE 250.

One team of transport analysts said yesterday that recent outperformance by bus companies could lead to disappointment for shareholders if the white paper falls short of expectations. National Express was off 41½ at £10.74.

One bus stock that resisted the downward trend was Metroline, which rose 6 to 282½p on talk Stagecoach might be eyeing it.

Misys showed no signs of faltering in its advance. The stock gained 117 to £35.50, where it stands at about 55 times this year's earnings.

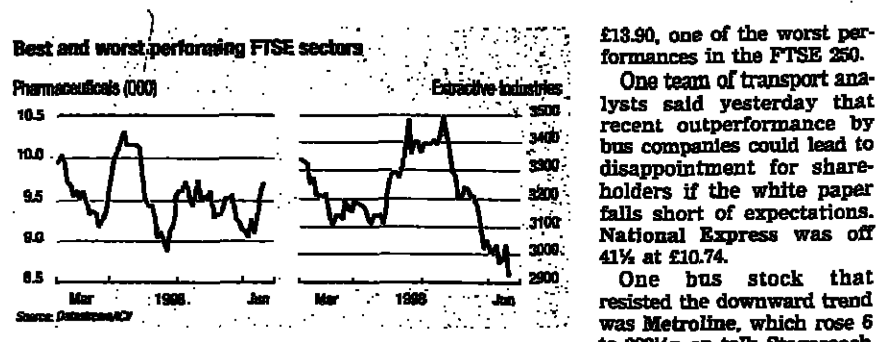
Further signs of strength among information technology stocks came from Trace Computers, which rose 14 to 153½p after it said profits for the year to May would exceed the £1m expected by the market.

Servomex fell 65 to 247½p after the electronics group warned it had suffered a significant downturn in orders in the second quarter. This would adversely affect interim profits.

Omnimedia, the multimedia company that has been one of the Alternative Investment Market's worst performers, was suspended at 2½p, up half a penny on the session, pending a possible reverse takeover of the group.

Paints group Kalon was the worst performer in the FTSE 250 index, shedding 38 to 146½p, after it said sales in the UK and France had failed to meet expectations in May and the outlook for June, normally one of its best months, was uncertain because of the World Cup.

Iceland fell 7½ to 258½p as the frozen food retailer revealed that Malcolm Walker, chairman and chief executive, had sold 990,000 shares at 254p each. Deputy chairman Bernard Leigh sold 450,000 shares at the same price.



FT 30 INDEX

	Jun 9	Jun 8	Jun 5	Jun 4	Jun 3	Yr ago	*High	*Low
FT 30	3930.8	3948.7	3901.8	3852.9	3858.6	3039.4	3920.3	3924.1
Ord. div. yield	2.82	2.81	2.84	2.88	2.87	3.61	4.22	2.79
P/E ratio net	24.41	24.48	24.21	23.92	23.96	18.38	25.41	15.80
P/E ratio nil	24.20	24.26	23.99	23.71	23.75	18.20	25.18	15.71

FT 30 since compilation: high 3920.3 11/05/98, low 49.4 26/06/40. Base Date: 1/7/35

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3949.0	3941.7	3934.7	3933.8	3929.2	3937.5	3933.0	3931.3	3929.6	3949.4	3924.1

STOCK MARKET TRADING DATA

	Jun 9	Jun 8	Jun 5	Jun 4	Jun 3	Yr ago
SEAQ bargains	67,890	51,410	57,965	56,678	64,695	50,300
Equity turnover (£m)†	-	-	2787.1	3404.9	3390.3	2787.1
Equity bargains†	-	-	36,780	48,312	52,452	36,780
Shares traded (m)†	-	-	660.8	810.0	784.9	660.0
Total market bargains‡	-	n/a	60,754	59,567	64,814	-
Total turnover (£m)‡	-	n/a	4309.6	4476.9	4584.8	-
Total shrs traded (m)‡	995.9*	n/a	971.0	1021.9	1025.5	-
Tradepoint turnover (£m)	24.0	44.5	69.5	49.4	27.7	4.9
Tradepoint shrs traded	8,800	13,870	21,244	16,179	8,351	1,460

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm ‡ UK plus intra-market turnover

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	752	Total Highs	207	Total contracts	30,910
Total Falls	785	Total Lows	67	Calls	11,331
Same	1,450			Puts	19,579

Jun 9 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6035.0	6022.0	-37.0	6040.0	6006.0	21358	140361
Sep	6110.0	6101.0	-36.0	6115.5	6092.0	5771	41470
Dec		6187.0	-37.0			0	606

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5980.0	5976.0	-4.0	5980.0	5980.0	258	4587
Sep	6080.0	6078.0	-4.0	6080.0	6080.0	258	2285

■ FTSE 100 INDEX OPTION (LIFFE) (*6014) £10 per full index point

	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P
Jun	185	23	154	34	118	47½	88½	66	69	89	38	119½	24	157½	14½	203
Jul	289½	85	251	100	218	117½	188	137	158	157	131	181½	108½	210	87½	240
Aug	358	142	326	159½	296	178½	265½	197½	236½	217½	208	240	184	268	161½	296½
Sep	419½	185½	389	204	358½	222½	328	241	297½	259½	267	278	242½	303½	219	328
Dec†			558½	281½			489	320			427	380½			374	411½

Calls 780 Puts 730

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P	6175 C	6175 P
Jun	218½	22	175	28½	136½	39½	102	55	72	75	48	101	29½	132½	17½	170
Jul	308	79	268½	92	235	107	202	123½	171½	143	144	165	120	190½	97½	217½
Aug	328	135	343½	149½	311	168	279½	184	248½	202½	222	225	194½	246½	169	270½
Sep	438	168			373	201			311	236½			257½	281		
Dec†	594	246			528	276			467	311			408½	349		

Calls 4,808 Puts 11,278 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§90	F.P.	17.2	102½	88½	†Ambient Media	90		–	–	–	–
–	F.P.	213.1	40	36	BTR Red Prf B	36½	−1	4.75	–	16.3	–
4	F.P.	1.16	6	5	†Captain O.M. Wade	5¼	+¼	–	–	–	–
–	F.P.	0.08	1½	1	†Do Warrants	1½		–	–	–	–
–	F.P.	33.3	165½	147½	City North Grp	153½		R2.2	1.6	1.8	44.9
–	F.P.	1,268	822½	720	Compudecenter	752½	−4½	L11.8	11.0	0.3	38.6
[illegible]											
–	F.P.	19.2	97½	95½	†James R Knowles	95½		L03.2	–	3.3	–
–	F.P.	3.71	13	12	Multi Equip Rent	13		–	–	–	14.2
*	F.P.	–	100	100	Penlson Dwag VCT	100		–	–	–	–
–	F.P.	57.5	155½	143½	Ovenica	147½		–	–	–	24.9
–	F.P.	–	140½	130½	Taiwan IT GDR	131½		–	–	–	–
§200	F.P.	152.9	248½	203½	Taylor & Francis	236½		L3.0	2.4	1.6	28.1
§170	F.P.	1,845	200	176	Thomson Travel	184½	−5	W2.8	2.9	1.9	22.4

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jun 8	% chg on day	Jun 5	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index(31)	1084.00	+2.4	1059.38	1542.97	2.21	–	1580.71	893.28
■ Regional Indices								
Africa (14)	1094.26	−3.3	1131.91	1733.10	4.86	24.52	1744.52	921.78
Australasia (7)	1154.53	−0.2	1156.30	1740.05	2.77	17.41	1757.50	933.63
North America (10)	1053.08	+5.0	1002.91	1471.70	1.17	45.14	1574.16	864.86

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Market closed 8/6/98: Australia. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 9	Day's chge%	Jun 8	Jun 5	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6019.8	−0.3	6037.8	5947.3	4686.7	2.74	2.32	2.02	22.57	78.04	2634.03
FTSE 250	5966.6	+0.1	5960.3	5934.8	4484.1	2.76	2.33	2.00	22.59	65.13	2558.71
FTSE 250 ex IT	6035.7	+0.1	6030.0	6007.5	4498.1	2.84	2.40	2.06	21.36	67.00	2596.00
FTSE 350	2929.3	−0.2	2935.8	2897.7	2285.2	2.74	2.32	2.02	22.57	36.79	2618.41
FTSE 350 ex IT	2932.6	−0.2	2939.4	2900.9	2264.6	2.76	2.33	2.03	22.32	37.12	1344.60
FTSE 350 Higher Yield	2831.1	−0.4	2842.1	2811.4	2198.3	3.75	3.21	1.88	17.71	47.17	2163.38
FTSE 350 Lower Yield	3029.6	−0.1	3032.6	2988.6	2338.2	2.01	1.68	2.21	28.19	28.47	2200.50
FTSE SmallCap	2787.08	+0.2	2782.68	2775.34	2279.49	2.80	2.27	1.60	27.83	27.48	2422.65
FTSE SmallCap ex IT	2793.83	+0.1	2790.31	2785.25	2262.11	2.96	2.40	1.67	25.29	28.82	2453.31
FTSE All-Share	2882.45	−0.2	2888.09	2832.79	2222.17	2.75	2.32	1.99	22.84	35.44	2596.50
FTSE All-Share ex IT	2868.20	−0.2	2874.23	2838.37	2221.12	2.77	2.34	2.01	22.46	35.92	1338.59

■ FTSE Actuaries Industry Sectors

	Jun 9	Day's chge%	Jun 8	Jun 5	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4728.83	−2.0	4824.72	4786.73	4448.97	3.22	2.78	1.72	22.63	74.28	2175.44
12 Extractive Industries(6)	2918.60	−3.7	3032.25	2982.11	4382.03	4.82	4.41	2.03	12.81	76.82	921.17
15 Oil, Integrated(4)	5328.60	−1.8	5428.78	5391.98	4589.13	3.18	2.71	1.64	24.06	79.87	2521.40
16 Oil Exploration & Prod(12)	3322.68	−1.1	3359.68	3333.53	3798.97	1.71	1.41	1.98	36.98	32.03	2064.30
20 GEN INDUSTRIALS(218)	2380.89	−0.4	2390.10	2380.39	1906.74	3.09	2.71	2.18	18.58	29.48	1398.24
21 Construction(38)	1759.73	+0.2	1757.05	1748.87	1379.44	2.76	2.25	2.65	17.07	19.87	1570.01
22 Building Matls & Merchs(26)	2016.27	−0.2	2019.93	2022.94	1841.00	3.67	3.16	1.73	19.66	31.63	1098.93
23 Chemicals(24)	2976.80	−0.8	3000.08	3006.74	2433.52	3.18	2.96	1.73	22.73	41.83	1523.77
24 Diversified Industrials(10)	1437.26	−0.8	1449.16	1445.68	1278.61	3.77	3.55	2.41	13.76	30.65	883.25
25 Electronic & Elect Equip(26)	2907.84	+0.8	2884.97	2819.76	1994.34	2.97	2.41	1.62	25.97	21.46	1602.35
26 Engineering(62)	3142.75	−0.8	3167.05	3166.74	2533.63	2.97	2.64	2.45	17.17	38.71	2027.03
27 Engineering, Vehicles(10)	4378.60	−1.4	4441.80	4403.39	2790.35	2.03	1.86	3.36	18.31	42.57	2413.24
28 Paper, Pckg & Printing(23)	2534.12	+0.6	2519.54	2500.22	2072.66	3.69	3.13	2.37	14.26	38.08	1144.75
[illegible]											

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										
FTSE SmallCap	[illegible]										
FTSE All-Share	[illegible]										

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	2,300	862	+1
AMVESCAP	648	685	-2
ASDA Group	12,300	188	-7½
Abbey National	2,700	1098	-18
Alliance & Leicester	789	833	-1½
Allied Domecq	1,600	580	-1½
[illegible]			

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IC rejects C$200m dio stations offer

Monte ... urns of losses

... Polish busines

Compaq and AOL in allianc

... range of ... and Junior ... cy Positions ... today in the UK edition ... the International edition

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 9 / Sch)

BELGIUM/LUXEMBOURG (Jun 9 / Frs.)

CZECH REP (Jun 9 / Koruna)

DENMARK (Jun 9 / Kr)

FINLAND (Jun 9 / Mkk)

FRANCE (Jun 9 / Frs.)

GERMANY (Jun 9 / Dm.)

GREECE (Jun 9 / Drachma)

ITALY (Jun 9 / Lire)

NETHERLANDS (Jun 9 / Fls.)

NORWAY (Jun 9 / Kroner)

POLAND (Jun 9 / Zloty)

PORTUGAL (Jun 9 / Escudo)

SPAIN (Jun 9 / Pta.)

SWEDEN (Jun 9 / Kronor)

SWITZERLAND (Jun 9 / Frs.)

TURKEY (Jun 9 / Tk Lira)

PACIFIC

JAPAN (Jun 9 / Yen)

AUSTRALIA (Jun 9 / Aust$)

HONG KONG (Jun 9 / HK$)

INDONESIA (Jun 9 / Rupiah)

MALAYSIA (Jun 9 / MYR)

NEW ZEALAND (Jun 9 / NZ $)

SINGAPORE (Jun 9 / S$)

SOUTH KOREA (Jun 9 / Won)

TAIWAN (Jun 9 / TW $)

THAILAND (Jun 9 / Baht)

AMERICAS

CANADA

TORONTO (Jun 9 / Can $) 4 pm close

MONTREAL (Jun 9 / Can $) 4 pm close

MEXICO (Jun 9 / Peso) 12:30 pm

AFRICA

SOUTH AFRICA (Jun 9 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JUNE 8 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JUNE 5 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	184.75	-0.4	167.77	163.98	170.73	205.40	0.0	3.86	185.52	168.11	163.66	171.01	205.40	243.87	184.75	231.53
Austria (23)	245.01	0.4	222.48	217.45	226.41	226.26	0.6	1.50	244.09	221.18	215.33	225.00	224.87	253.73	181.60	195.41
Belgium (26)	364.43	0.2	330.93	323.45	336.77	329.53	0.5	2.23	363.74	329.60	320.88	335.30	328.04	384.43	234.33	249.86
Brazil (26)	230.87	1.0	209.65	204.91	213.35	489.78	1.0	2.08	228.65	207.19	201.71	210.77	484.89	322.44	184.94	269.53
Canada (120)	239.83	0.6	217.78	212.86	221.62	253.67	0.7	1.57	238.42	216.04	210.32	219.77	252.04	248.78	199.10	209.16
Denmark (34)	513.11	2.0	465.95	455.41	474.17	472.52	2.2	1.28	503.08	455.87	443.80	463.74	462.15	521.81	375.32	382.58
Finland (28)	440.99	1.4	400.46	391.40	407.52	490.92	1.7	1.83	434.80	393.99	383.57	400.80	491.65	451.12	267.59	289.57
France (78)	335.75	0.1	304.89	297.99	310.26	313.92	0.3	1.87	335.41	303.93	295.89	309.18	312.61	335.75	217.48	222.59
Germany (58)	307.24	1.2	279.00	272.69	283.92	283.92	1.4	1.17	303.71	275.20	267.92	279.96	279.96	307.24	204.89	213.79
Greece (37)	297.02	-0.2	269.71	263.62	274.47	641.87	0.0	1.42	297.72	269.78	262.64	274.44	641.87	307.94	284.68	-
Hong Kong, China (66)	251.69	-0.6	228.55	223.39	232.58	250.39	-0.6	6.30	253.20	229.44	223.37	233.40	251.92	580.09	251.69	521.65
Indonesia (27)	32.31	-0.5	29.34	28.68	29.86	231.89	-0.1	3.05	32.46	29.42	28.64	29.92	232.01	254.90	27.26	241.13
Ireland (16)	524.11	1.8	475.94	465.18	484.33	520.57	2.1	1.87	514.79	466.47	454.13	474.53	509.78	560.44	344.11	344.11
Italy (54)	171.54	0.9	155.77	152.25	158.52	224.33	1.2	1.25	170.03	154.07	150.00	156.74	221.71	177.15	86.93	88.04
Japan (480)	88.85	-0.9	80.68	78.85	82.10	78.85	-0.3	1.00	89.67	81.25	79.10	82.66	79.10	141.12	88.52	133.87
Malaysia (106)	135.66	-2.4	123.19	120.40	125.36	209.25	-1.9	3.05	138.95	125.91	122.58	128.09	213.28	538.33	113.56	537.73
Mexico (29)	1473.30	-0.7	1337.87	1307.62	1361.47	14203.49	0.0	1.71	1484.03	1344.76	1309.17	1367.99	14206.33	1901.98	1415.52	1478.22
Netherlands (19)	529.82	0.6	481.12	470.24	489.60	484.53	0.8	1.91	526.88	477.43	464.80	485.68	480.58	532.74	378.69	378.69
New Zealand (14)	62.17	-2.1	56.46	55.18	57.45	64.85	-1.3	4.69	63.53	57.57	56.04	58.56	65.71	96.47	62.17	91.38
Norway (38)	322.08	1.4	292.47	285.86	297.63	326.31	1.8	1.92	317.56	287.78	280.16	292.75	321.03	374.64	281.62	313.29
Philippines (22)	83.66	-2.4	75.97	74.25	77.31	164.99	-1.4	1.26	85.69	77.65	75.60	78.99	167.30	172.36	57.54	165.17
Portugal (18)	279.96	1.2	254.23	248.48	258.71	348.79	1.4	1.09	276.74	250.77	244.13	255.10	343.98	298.39	268.22	-
Singapore (42)	149.60	-4.8	135.85	132.78	138.25	118.08	-4.0	2.58	157.22	142.46	138.69	144.92	123.04	401.75	144.01	393.34
South Africa (42)	274.21	-1.8	249.01	243.38	253.40	309.44	-1.3	2.79	279.33	253.11	246.42	257.49	313.60	384.24	227.88	362.37
Spain (31)	393.00	-0.1	356.88	348.81	363.17	449.29	0.1	1.70	393.39	356.48	347.04	362.63	448.68	398.54	236.28	255.40
Sweden (49)	611.78	0.7	555.54	542.98	565.34	709.85	1.3	1.65	607.27	550.28	535.72	559.79	700.80	615.21	439.98	455.42
Switzerland (30)	412.85	0.0	374.90	366.42	381.51	378.09	0.2	1.08	412.79	374.05	364.15	380.51	377.29	414.95	285.85	296.09
Thailand (38)	16.21	-3.2	14.72	14.39	14.98	27.21	-3.3	9.87	16.75	15.18	14.77	15.44	28.14	69.09	13.10	61.63
United Kingdom (206)	388.34	1.1	352.65	344.67	358.87	352.65	1.3	2.80	384.05	348.01	338.80	354.02	348.01	401.84	297.79	297.79
USA (632)	455.51	0.2	413.64	404.29	420.94	455.51	0.2	1.41	454.42	411.78	400.88	418.89	454.42	462.18	347.58	347.58
Americas (807)	411.62	0.2	373.79	365.34	380.38	348.10	0.3	1.43	410.58	372.05	362.20	378.47	347.18	418.95	318.23	318.23
Europe (745)	368.89	0.8	334.98	327.41	340.89	348.70	1.0	1.94	366.16	331.80	323.02	337.53	345.25	368.89	261.49	281.49
Eurobloc (351)	106.88	0.6	109.17	112.89	106.87	106.89	0.9	1.60	106.31	108.28	111.51	105.94	105.95	106.98	100.00	-
Nordic (149)	530.79	1.1	482.00	471.10	490.50	537.66	1.5	1.65	525.00	475.73	463.14	483.95	529.57	536.56	388.51	392.17
Pacific Basin (867)	95.29	-0.9	86.53	84.57	88.06	84.99	-0.4	1.75	96.20	87.17	84.86	88.68	85.34	159.99	95.29	152.42
Euro-Pacific (1612)	209.33	0.3	190.09	185.79	193.44	184.58	-0.6	1.89	208.72	189.13	184.13	192.40	183.45	216.04	172.03	197.94
North America (752)	441.70	0.3	401.10	392.03	408.17	441.94	0.3	1.42	440.57	399.23	388.66	406.12	440.81	448.61	339.13	338.13
Europe Ex. UK (538)	346.53	0.6	314.67	307.56	320.22	335.94	0.8	1.52	344.57	312.24	303.97	317.63	333.16	346.53	235.91	235.91
Europe Ex. Eurobloc (394)	100.46	0.9	102.51	106.01	100.35	101.78	1.1	2.29	99.59	101.42	104.46	99.24	100.67	100.97	98.35	-
Europe Ex. UK Ex. Eurobloc (188)	103.86	0.4	105.99	109.61	103.76	103.75	0.7	1.30	103.46	105.35	108.52	103.10	103.04	104.20	99.32	-
Pacific Ex. Japan (387)	158.87	-1.1	144.27	141.01	146.81	167.51	-0.7	4.67	160.55	145.48	141.63	148.00	168.76	318.98	158.87	312.23
World Ex. Eurobloc (2110)	97.88	0.2	88.87	86.86	90.43	99.00	0.3	1.65	97.88	88.51	86.17	90.04	98.69	100.18	86.07	-
World Ex. US (1829)	212.38	0.3	192.86	188.50	196.28	191.36	0.6	1.88	211.79	191.91	186.84	195.23	190.23	220.18	175.30	201.56
World Ex. UK (2255)	281.55	0.2	255.67	249.89	260.18	259.12	0.3	1.60	281.11	254.72	247.98	259.13	258.33	287.02	234.24	243.19
World Ex. Japan (1981)	390.63	0.4	354.72	346.70	360.98	384.71	0.5	1.71	389.14	352.62	343.29	358.71	382.83	394.39	306.56	306.56
The World Index (2461)	290.58	0.3	263.87	257.90	268.52	267.54	0.4	1.84	289.83	262.63	255.68	267.17	266.43	296.57	241.30	247.90

Emerging markets: IFC investable indices

Dollar terms

Jun 8 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	987.79		-11.5
Brazil	451.08	+1.2	-6.5
Chile	546.62	+0.1	-14.9
Colombia[1]	547.45	+0.1	-33.7
Mexico	644.31	-0.7	-18.3
Peru[2]	211.37	-1.2	-4.5
Venezuela[3]	588.35	-0.6	-35.7
East Asia			
China[4]	39.59	-0.9	-28.4
Korea[5]	27.68	+0.5	+15.2
Philippines	118.43	-2.5	+5.0
Taiwan, China[6]	118.79	+0.1	-15.8
South Asia			
India[7]	73.17	-0.8	-12.2
Indonesia[8]	15.23	-0.8	-54.8
Malaysia	75.94	-2.1	-16.7
Pakistan[9]	136.47		-45.1
Sri Lanka[10]	105.43		-9.4
Thailand	46.51	-1.5	-1.1
Europe/Mideast/Africa			
Czech Rep	53.36	-1.3	-2.5
Egypt	80.21	+2.6	-14.0
Greece	539.11	-0.2	+68.4
Hungary[11]	332.60	+0.5	+5.7
Israel	135.62	+2.0	+11.4
Jordan	218.03	-0.8	+3.7
Morocco	163.94	-0.3	+25.8
Poland[12]	731.20	+4.0	+22.5
Portugal	311.90	+1.1	+47.8
Russia	77.87	-1.3	-47.8
S Africa[13]	199.58	-1.1	+11.0
Slovakia	58.55	-5.3	-40.9
Turkey[14]	287.04	+2.5	-8.0
Zimbabwe[15]	253.61	+1.5	+0.8
Regions			
Composite	227.94	-0.0	-7.3
Latin America	582.50	+0.1	-14.0
Asia	90.81	-0.7	-15.7
EMEA	157.49	+0.2	+6.6
Europe	198.92	+0.9	+2.9
Easte Europe	102.11	+0.1	-27.3
ME & Africa	79.06	-0.4	+10.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 8 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dep 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close June 9

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

52 week High	Low	Stock	Div.	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev. Close
115	68½	Xerox x	1.44	1.4	23	9815	108	103¾	103¾	-1¾
68¼	50½	Xtra Corp	0.88	1.7	18	284	52⅝	51⅝	52¼	[illegible]
26⅞	22⅝	Yankee Egy x	1.38	5.7	17	87	24⅝	23⅞	24⅛	[illegible]
42¾	34⅝	York Int	0.48	1.9	43	1548	48⅝	48	48¼	[illegible]
15¼	6⅝	Zapata	0.28	2.9	24	402	9⅝	9½	9⅝	
30½	24⅞	Zenith Nat	1.00	3.5	16	21	28⅝	28½	28½	[illegible]
8⅞	7⅞	Zenix Inc	0.73	9.6		45	7⅝	7½	7⅝	[illegible]
33⅛	25	Zero	0.12	0.4	17	128	28⅝	28	28⅛	[illegible]
14⅞	12⅛	ZweigFd	1.22	10.7		611	12⅝	12⅛	12⅝	
9⅞	8½	Zweig Tot x	0.84	9.7		521	8⅞	8⅝	8⅞	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-New yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
s Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jun 8	Jun 5	Jun 4	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9069.60	9037.71	8870.56	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.81	104.81	104.72	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3357.38	3328.39	3302.52	3686.02 (16/4)	3194.38 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	292.01	292.36	290.18	292.36 (5/6)	262.66 (9/1)	292.36 (5/6/98)	10.53 (8/7/32)

DJ Ind. Day's high 9153.04 (9057.39) Low 8994.12 (8868.57) (Theoretical)
Day's high 9104.72 (9039.46) Low 9034.37 (8870.56) (Actual)

Standard and Poors	Jun 8	Jun 5	Jun 4	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1115.74	1113.86	1094.83	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials¶	1299.15	1299.54	1275.80	1311.46 (22/4)	1077.49 (9/1)	1311.46 (22/4/98)	3.52 (30/6/32)
Financial¶	135.80	134.38	132.48	140.63 (14/4)	110.65 (9/1)	140.63 (14/4/98)	7.13 (4/3/74)
Others							
NYSE Comp.	576.82	575.37	566.35	585.62 (22/4)	487.47 (9/1)	585.62 (22/4/98)	4.64 (25/4/42)
Amex Comp	713.69	713.12	709.46	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1787.77	1782.92	1769.95	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	456.34	454.24	451.74	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	Jun 5	May 29	May 22	Year ago
Dow Jones Ind. Div. Yield	1.56	1.60	1.56	1.70

	Jun 3	May 27	May 20	Year ago
S & P Ind. Div. yield	1.35	1.33	1.30	1.69
S & P Ind. P/E ratio	30.20	30.60	30.98	23.32

US DATA

■ MARKET ACTIVITY

● Volume (million)	Jun 8	Jun 5 *	Jun 4
NYSE	543.390	598.440	559.277
Amex	22.041	28.180	21.635
NASDAQ	617.559	685.576	710.980

NYSE	Jun 8	Jun 5	Jun 4
Issues Traded	3,525	3,485	3,499
Rises	1,673	1,880	1,632
Falls	1,304	894	1,242
Unchanged	548	801	625
New Highs	112	70	37
New Lows	65	69	80

■ NYSE TRADING ACTIVITY — Volume : 543,390,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
PhMorr	9,977,100	39¾	+⅝
NabiscoA	7,471,500	36⅞	−5⅝
BayNtwks	6,623,700	31⅞	+1⅛
Norwest	6,495,200	36⅜	−2⅝
RJR Nb	6,408,800	26⅝	−1⅞
Compaq	5,116,500	28⅞	+⅜
Telebras	4,494,000	117⅞	+4⅛
Cendant	3,924,100	20⅞	−⅛
Travlr	3,111,900	64⅝	+¼
AT&T	3,069,900	61⅝	

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
CompCr	10⅜	+¾	+7.6
Cabins	13	+⅞	+7.2
HA–LO Ind	31⅞	+2⅛	+7.2
GaldarH	49¼	+3⅛	+6.9
Downs			
NabiscoA	36⅞	−5⅝	−13.3
Norwest	36⅜	−2⅝	−7.2
Black H PL	21⅛	−1½	−6.6
RJR Nb	26⅝	−1⅞	−6.6

■ NASDAQ TRADING ACTIVITY — Volume :617,559,000

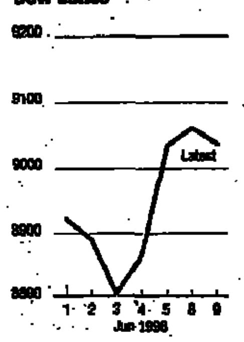
■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Intel	17,549,700	69⅞	−½
Novell	14,705,300	12⅛	+1⅛
DellCmp	10,847,100	85⅜	−⅝
DSC Cm	9,569,800	25⅛	−⅛
FrsniTec	7,945,300	15⅝	−5⅞
CscoSys	7,741,800	77⅝	+⅛
CmptrLm	6,394,700	22⅞	+4⅝
Oracle	5,593,200	25⅝	−⅛
AscendCom	5,263,100	47	−⅝
OwensCm	4,804,500	32½	+1⅝

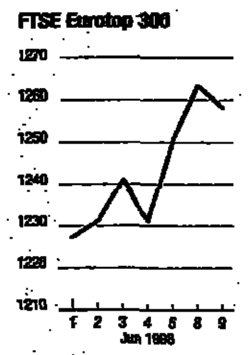
■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
CmptrLm	22⅞	+4⅝	+27.8
Realcmwks	28	+3⅜	+16.5
AndrxCp	35½	+3¾	+11.8
Legato	29⅛	+2⅝	+10.9
Downs			
FrsniTec	15⅝	−5⅞	−26.4
GalileoTch	11⅝	−3⅝	−23.8
WalgJos	18⅛	−3	−14.0
Bilfel	18	−2¾	−13.3

Dow Jones



FTSE Eurotop 300



JAPAN

	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15530.17	15294.71	15323.43	17264.34	14664.44	38915.9	85.25

Day's high: 15530.17. Day's low 15316.43.

■ TOKYO TRADING ACTIVITY — Volume : 314,800,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
LTCB	28,734,000	167	−14
Nikko Secs	12,565,000	592	−8
Np Crdt Bk	11,584,000	122	−4
Nip Steel	6,821,000	236	+2
Sumitomo Mtl	5,353,000	210	−1
Sakura Bk	6,155,000	412	+1
Komatsu	4,872,000	682	+22
Daiwa Sec	3,862,000	581	−9
Nissan Mtr	3,280,000	471	+15
Fuji Bank	3,253,000	585	−10

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Tokai Senko	180	+21	+13.2
Kaaga El Wks	170	+18	+11.8
Kawaid Kokai	189	+16	+9.3
Kawada Inds	220	+18	+8.9
Downs			
Hokuso	100	−20	−16.7
Twa Real Est	81	−10	−11
Nppn Kasi Ch	105	−12	−10.2
Meiz Co	90	−10	−10

GERMANY

	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5760.03	5779.09	5688.50	5779.09	4067.28	5779.09	531.18

Day's high: 5782.95. Day's low: 5744.52

■ FRANKFURT TRADING ACTIVITY — Volume : 16,124,943

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Bayer	511,073	88.1	+1.05
Daimler–Benz	439,486	180.4	−1.6
Deutsche Tel	405,635	48.1	−1.5
Lufthansa	397,506	48.6	−0.5
BASF	374,160	83.45	−1.05
Siemens	358,806	112.8	−2.2
Deutsche Bnk	344,320	154.15	−0.85
Commerzbank	337,637	69.65	−0.3
Hoechst	324,770	86.2	
RWE	289,091	102.05	−0.8

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Trink & Burk	1130.0	+80.0	+7.6
Horabach	85.5	+5.5	+6.9
Sixt	220.0	+15.0	+5.7
Walter	790.0	+40.0	+5.4
Downs			
Burgbad AV	44.0	−3.0	−6.4
Mosel	14.1	−0.9	−6.0
Heidelb Druck	157.3	−9.7	−5.9
Ex-Cell–O	203.0	−12.0	−5.6

FRANCE

	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4201.86	4204.58	4155.05	4204.58	[illegible]	4204.58	[illegible]

Day's high 4204.87 Day's low 4172.50

■ PARIS TRADING ACTIVITY — Volume : 475,530,040

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Euro Disney	2,298,201	11.55	−0.1
Alcatel	1,315,653	1302.0	−20.0
Usinor	1,002,137	106.5	−1.5
France Tel	916,624	375.0	−0.6
Bq Nt Paris	706,241	502.0	−11.0
Vivendi	629,774	1270.0	+17.0
AXA–UAP	600,292	699.0	−3.0
Rhne Poulenc	543,318	341.0	+2.1
Lyon Eaux	349,453	1032.0	+15.0
CSF Thomson	347,700	256.0	−1.8

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Hbg Sati Est	9.0	[illegible]	[illegible]
Flammarion	250.0	[illegible]	[illegible]
Hgh Ch	449.9	[illegible]	[illegible]
Gravograph	35.0	[illegible]	[illegible]
Downs			
Coflexip	[illegible]	[illegible]	[illegible]
Calcomp	201.1	[illegible]	−11.5
Etude Comm	190.1	−14.9	[illegible]
Lore Utlton	2750.0	[illegible]	[illegible]

UK

	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	6019.8	6037.9	5947.3	6105.80	[illegible]	6105.8	[illegible]

Day's high 6039.2 Day's low 6003.8

■ LONDON TRADING ACTIVITY — Volume : 995,900,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Signet Grp	40,571,350	[illegible]	[illegible]
Br Biotech	24,649,300	[illegible]	[illegible]
BTR	19,319,400	157	[illegible]
SmithKline	14,248,110	700	+3
Centrica	13,321,590	[illegible]	[illegible]
ASDA	12,271,550	168	[illegible]
Argos	12,202,350	97	[illegible]
Shell T&T	11,371,829	443	[illegible]
Lloyds TSB	10,758,620	898	−2
Br Telecom	10,110,400	665	+6

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Pointing Tm	[illegible]	[illegible]	[illegible]
Riverview	115	[illegible]	[illegible]
Thistle Hts	[illegible]	[illegible]	+19.5
Flare Grp	[illegible]	[illegible]	[illegible]
Downs			
Sinclair	[illegible]	[illegible]	−20.1
Kalon Grp	[illegible]	[illegible]	[illegible]
Card Clear	[illegible]	[illegible]	[illegible]
Br Biotech	[illegible]	[illegible]	[illegible]

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1118.70	1116.30	−0.70	1118.10	1115.60	103,819	287,768
Sep	–	1129.20	–	–	1127.10	27,628	118,635

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	15280.0	15480.0	+170.0	15520.0	15260.0	25,048	121,682
Sep	15270.0	15480.0	+170.0	15520.0	15260.0	14,992	90,789

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	4193.0	4194.0	+3.0	4197.0	4187.0	647	50,370
Jul	4174.0	4199.5	+2.5	4184.0	4174.0	378	1,890
■ DAX							
Jun	5798.0	5781.5	−6.5	5798.5	5743.0	19,182	125,139
Sep	5849.0	5831.5	−11.5	5849.0	5794.5	2,981	22,033

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	794.00	801.25	+5.75	803.25	790.50	[illegible]	[illegible]
Jul	795.00	806.25	+7.75	806.25	794.25	[illegible]	[illegible]
■ SOFFEX							
Jun	7733.0	7725.0	−25.0	7764.0	7706.0	[illegible]	[illegible]
Jul	7740.0	7730.0	−29.9	7740.0	7725.2	245	[illegible]

WORLD MARKETS AT A GLANCE

Country	Index	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Yield	P/E
Argentina	General	20631.81	(c)	20952.85	23485.47 23/3	18237.40 2/1	3.2	17.8

&Shares tracked Brazil and Wall Street lower.

Country	Index	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Yield	P/E
Australia	All Ordinaries	2623.9	(c)	2642.8	2681.40 16/4	2542.40 12/1	3.5	19.4
	All Mining	582.1	(c)	587.5	713.10 23/4	532.20 13/1		

Fear of an imminent interest rate rise to defend the sliding local dollar sent debt and equity markets down.

Country	Index	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Yield	P/E
Austria	Credit Aktien	(u)	575.49	573.19	584.34 26/5	437.44 13/1	1.6	16.3
	ATX Index	1589.16	1587.83	1578.21	1626.56 26/5	1245.69 13/1		

VAE, which has become a takeover target of VA Stahl, was the top gainer, adding 32 per cent.

Country	Index	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Yield	P/E
Hungary	Bux	8138.05	8213.57	8114.50	9016.36 23/4	7049.35 28/5	na	na
India	BSE Sens.	3468.07	3416.73†	3417.89	4280.98 21/4	3209.55 28/1		
	Cnsl 500	664.46	654.00	654.89	815.82 21/4	594.38 29/1	na	na

Shares ignore fall in the rupee. Software stocks rallied on hopes of higher export earnings.

Country	Index	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Yield	P/E
Indonesia	Jakarta Comp.	411.07	409.42	408.52	554.10 2/2	342.97 9/1	2.4	15.8

State-controlled cement maker Semen Gresik's 18.5 per cent jump lifted index, but in broader market falls doubled rises.

Country	Index	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	5603.40	5619.73	5644.16	6176.89 22/4	3679.27 2/1	1.8	[illegible]
	PSI 20	12769.91	12825.05	13658.39	14292.89 22/4	8031.64 2/1		
Russia	RTS	196.45	205.31	207.05	411.61 5/1	171.71 1/6	na	na

Cut in ratings by S&P hit sentiment.

Country	Index	Jun 9	Jun 8	Jun 5	1998 High	1998 Low	Yield	P/E
Singapore	SES All-S'pore	314.33	314.56	324.21	437.98 19/3	314.33 9/6	[illegible]	[illegible]
	Straits Times	1117.21	1123.57	1168.46	1698.75 19/3	1073.47 12/1		

Early sharp gains in banks were knocked back by foreign selling and DBS foreign tranche was only able to close higher.

THE NASDAQ STOCK MARKET

4 pm close June 9

THE NASDAQ STOCK MARKET

AMEX PRICES

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STOCK MARKETS

Greenspan and G7 give pause for thought

WORLD OVERVIEW

Uncertainty stalked the world's financial markets yesterday, ahead of Alan Greenspan's testimony to Congress and a G7 meeting in Paris, *writes Philip Coggan*.

Investors were concerned that the US Federal Reserve chairman might indicate that the time had come for a tightening in US monetary policy and they wondered whether the leading nations might decide to produce a package to support the Japanese yen.

The yen's weakness – it briefly fell below Y141/$ yesterday – is a mixed blessing for equity markets. It threatens the stability of other Asian currencies and stock markets. But the corollary, the dollar's strength, is good news for European bourses because of the boost to export prospects.

As is normally the case when the immediate outlook is uncertain, share prices drifted lower as investors decided to sit on their hands and await some concrete news. Europe's markets lost sight of the record levels they reached on Monday, although the declines in the leading markets of Frankfurt and Paris were modest.

Germany's seasonally adjusted unemployment level fell by 60,000 in May, but that sign of economic recovery was offset by a larger-than-expected 0.6 per cent monthly drop in industrial production.

The Russian market was one European casualty, falling 4.3 per cent after Standard & Poor's cut the country's long-term foreign currency debt rating.

In Asia, the biggest hit was taken by the red chips – China-linked stocks listed in Hong Kong – on fears that the Chinese renminbi would be forced to devalue in the light of recent yen weakness. Currency worries also weighed on stocks in Korea and Taiwan.

Wall Street opened weakly, with the Dow Jones Industrial Average quickly falling 50 points after Monday's 31-point drop. But the Dow seemed to be comfortable above the 9,000 level.

The Bank for International Settlements, the international organisation of central banks, has sounded some cautious notes about the level of global stock markets in its latest report. On the issue of profits, the report says: "At the present juncture, explicit earnings projections do not suggest an order of designation that would warrant the designation of a 'new era'."

The BIS sees current high equity valuations as being related to declining returns on substitute assets, such as bonds. "Should bond prices themselves be subject to some reversal, then stock prices too would have to be reassessed," it said.

Dow dips as leading stocks move lower

AMERICAS

US equities moved lower in early trading with losses among blue chips partly mitigated by stronger tech shares, *writes John Labate in New York*.

"The S&P 500 just turned marginally positive, and I think that we're going to see very little movement on the major averages ahead of Mr Greenspan's testimony tomorrow," said Bill Meehan, chief market analyst at Cantor Fitzgerald in Connecticut.

By early afternoon the Dow Jones Industrial Average was down 18.93 to 9,050.67, while the broader Standard & Poor's 500 had gained 1.09 to 1,116.81.

US Treasury prices turned down ahead of Mr Greenspan's testimony. The benchmark long bond fell ¼ to 104$\frac{9}{16}$, sending the yield higher to 5.80 per cent.

Many high-tech sectors pushed higher, including computer and semiconductor chip makers. The Pacific Stock Exchange's technology index rose 2.93 to 337.50, while the Nasdaq composite, which is heavily exposed to technology shares, was up 8.34 to 1,796.11.

Banking shares were lower a day after one of the biggest takeovers in the history of the industry. Shares of Norwest fell $1½ to 35\frac{5}{16}$, while Wells Fargo was down $17¾ or almost 5 per cent to $348. The Philadelphia stock exchange's banking index was off 6.62 at 850.56.

However, US Bancorp, which had been widely seen as a possible bidder for Wells Fargo, gained $$\frac{3}{16}$ to 40\frac{5}{16}$ after announcing a $2.5bn share buyback programme.

Browning-Ferris, the waste management company, climbed $⅜ to $36¼ after CS First Boston raised its rating to "buy". In the retail sector, Dayton Hudson lost 50 cents to $50⅜ after the company released May same-store sales figures.

Polaroid shares slipped $$\frac{5}{16}$ to 39\frac{1}{16}$ after Donaldson, Lufkin & Jenrette lowered its rating.

Internet company CNET surged 30 per cent or 10\frac{1}{32}$ to 43\frac{1}{16}$ after NBC said it would acquire an equity stake in the company.

Ascend Communications rose $1⅞ to $48⅞ on news that the company was to be included in the S&P 500 index.

Intel was modestly higher, up 50 cents to 69\frac{15}{16}$, a day after the federal government announced its antitrust lawsuit against the world's leading semiconductor producer.

TORONTO drifted lower in early trading with the 300 composite index off 2.72 at 4,201.86 at noon.

Golds and banks set the tone, moving modestly lower in thin volumes, and there was some unsettling news in the shape of a profits warning from Moore Corp.

Moore, a business form specialist, forecast losses for the second quarter of this year – the actual results are due in the third week of July – and the shares tumbled C$1.40 to a fresh low for the year of C$19.15.

Among golds, Barrick lost 30 cents to C$28 and Placer Dome 35 cents to C$18.10. Royal Bank of Canada came off 30 cents to C$88.85 and Bank of Nova Scotia 25 cents to C$37.25.

Upbeat contract news sent Northern Telecom higher, lifting the shares C$2 to C$94.50.

Bovespa loses ground

SAO PAULO traded narrowly in dull turnover with the benchmark Bovespa index off 60 at 10,480 at midsession. Activity was fairly minimal, not helped by the fairly directionless start on Wall Street.

Leaders lost ground across the board. Telebrás gave up 0.2 per cent at R$135.70 ahead of the announcement – widely expected tomorrow – of the minimum sale price for the upcoming privatisation of the telecommunications giant.

Elsewhere, Petrobrás shed 0.4 per cent to R$246 and Eletrobrás came off 1.5 per cent at R$39.90.

MEXICO CITY continued to drift lower. Market heavyweight Telmex, a strong market on Monday, met with modest profit-taking, slipping 10 centavos to 21.60 pesos. The IPC index was off 39.37 at 4,558.72 at midsession.

CARACAS turned visibly lower on the latest batch of negative news from world oil markets. At midsession, the IBC index was 69.93 or 1.2 per cent lower at 5,955.95.

Endesa pulls Madrid down

EUROPE

Weakness in Endesa shares dragged **MADRID** lower, with the general index ending down 18.04 or 2.1 per cent at 877.16.

Endesa, the electric utility that has completed a $7.3bn privatisation programme, dropped Pta170 or 4.9 per cent to Pta3,275.

More than 300m new shares started trading yesterday and many subscribers cashed in their holdings. The shares led the most actively traded stocks list.

Endesa's decline hit Iberdrola, another electric utility, which closed down Pta80 or 3.3 per cent to Pta2,355.

Other blue chips were down with Telefónica losing Pta120 to Pta7,070. Banks were also lower, with BBV down Pta230 to Pta7,700 and Santander retreating Pta120 to Pta7,830.

PARIS edged lower in a fairly directionless session for both cash and futures markets, and the CAC 40 index ended off 2.72 at 4,201.86.

Lafarge and LVMH led the retreat with the cement leader falling FFr30 or 4.7 per cent to FFr615 and LVMH coming off FFr35 to FFr1,320 on currency worries in Asia, where the luxury goods group has a big customer base.

Usinor fell FFr1.50 to FFr106.60 after disclosing a steep rise for borrowings and also that it was one of four companies in the running to bid for Belgian steel rival, Cockerill Sambre.

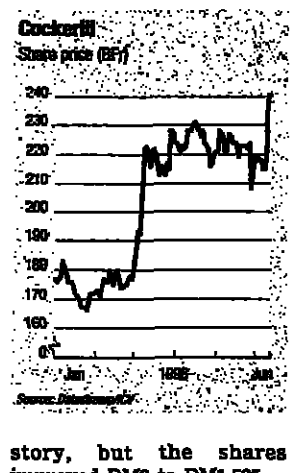
Oils were dull with Total losing FFr17 to FFr773 and Elf Aquitaine off FFr1 at FFr859 in line with softening international oil prices.

De Dietrich, which is caught up in a bid auction for Austrian rail group VAE, tumbled FFr20 to FFr400.

FRANKFURT traded narrowly in thin volumes to end the electronic session with the Xetra Dax index 13.28 lower at 5,773.77.

Henkel was a firm feature, rising DM5.80 to DM181.25. Volkswagen also managed to cling to the upside after a German magazine suggested that the motor giant was set to forge commercial vehicle links with Renault.

VW was quick to deny the story, but the shares improved DM9 to DM1,525.



BMW was one of the day's bigger casualties, falling DM70.40 to DM1,960.60.

ZURICH turned lower following another unhappy session for Roche where recent negative product news has unsettled sentiment.

The shares dropped SFr215 to SFr14,030 for a two-day decline of 3.5 per cent.

Drugs generally were dull. Novartis shed SFr24 at SFr2,525. Nestlé gave up SFr19 at SFr3,229. The SMI index closed off 26.6 at 7,716.8.

BRUSSELS edged higher to close at a record led by Cockerill Sambre, the steel maker seeking a tie-up. Weakness in banking shares capped the benchmark's gain and the Bel-20 index closed 1.21 higher at 3,335.22.

Cockerill surged BFr23 or 10.6 per cent to BFr241. Hoogovens of the Netherlands, Arbed of Luxembourg, Usinor of France and Thyssen Krupp of Germany are seen to be possible partnership candidates.

A shortlist is scheduled to be drawn up by the end of June with a final decision made in early September.

Tractebel, the utility, closed up BFr240 or 4.8 per cent to BFr5,200 after the announcement of its Scandinavian electricity joint venture.

Profit-taking hit Fortis, the Belgo-Dutch financial group, which closed down BFr430 or 4.3 per cent at BFr9,510.

The group won the bidding war against ABN Amro over Generale Bank, which fell BFr750 to BFr26,550 over the weekend.

Traders said investors regarded the offering price for Generale as too high.

AMSTERDAM closed marginally lower on lingering uncertainty over the course of the US economy. The AEX index fell 6.72 or 0.6 per cent to 1,206.51.

ASM Lithography, the semiconductor maker, rose Fl 3.40 to Fl 74.60 while Gucci gained Fl 1.60 to Fl 100.90. The shares gained ground on Monday after Prada, the Italian fashion company, bought a 5 per cent stake in the luxury goods group.

However, they shed most of the day's earlier gains after Prada's comments in an interview that the stake was a financial investment, disappointing investors who had hoped for a takeover.

COPENHAGEN closed firmer helped by banks and financial shares buoyed by merger speculation. The KFX index rose 1.73 or 0.7 per cent to 238.59.

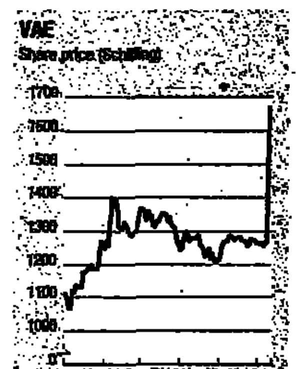
BG Bank, the third largest bank, gained DKr7 to DKr410 on its announcement that it was negotiating with Realcredit, a leading mortgage credit company.

Neurosearch rallied DKr20 to DKr560 on reports of UK clinical tests for its drug to fight cocaine addiction.

Tele Danmark, which appointed Henning Dyremose, the former finance minister, as its chief executive, gained DKr3 to DKr628.

VIENNA ended little changed after a hectic session for VA Stahl and rail equipment maker VAE.

Stahl, which is vying with a French group for control of VAE, rose 5 per cent to Sch574.40 while VAE powered ahead by 32 per cent to Sch1,670 after the bourse authorities waived the ruling on single-day movements for shares. The ATX index ended up 0.1 per cent at 1,589.16.



DUBLIN ran counter to the general trend across Europe, adding 95.94 or 1.9 per cent to 5,186.06 on the benchmark SE index. Ryanair Holdings rose 10p to 520p ahead of today's publication of final-quarter results.

Written and edited by Jeffrey Brown, Peter Hall, Emiko Terazono and Paul Gregan

Rate fears weaken Jo'burg

SOUTH AFRICA

Golds ticked higher, but the broad market in Johannesburg continued to lose ground as investors worried about an increase in interest rates.

At the close, the all share index was off 59.9 at 7,386.3. Industrials shed 111.1 to 8,912.8 and financials, led by clear weakness among banks, fell 209 to 13,169.3. A better day for bullion sent golds up 33.8 to 887.4.

HK sinks in currency storm

ASIA PACIFIC

Investors in **HONG KONG** nervously tracked the currency markets, and the Hang Seng index ended 195.17 or 2.3 per cent lower at 8,391.46.

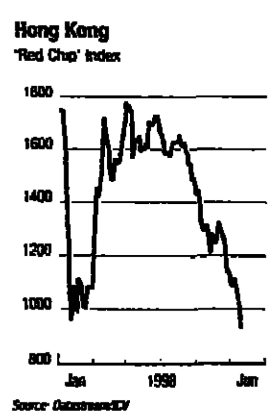
"Everyone is watching the yen and the yuan [renminbi]," said one broker. China stocks fell heavily, taking the red-chip index down 8.54 per cent and H shares 6.8 per cent lower.

Among China stocks, Shanghai Industrial lost HK$1.35 to HK$17.80 and Beijing Enterprises shed HK$1.15 to HK$10.65. Market heavyweight HSBC dipped 50 cents to HK$90.

The trading day was shortened by storm warnings and turnover trailed away to HK$3.3bn, against HK$4.6bn on Monday.

TOKYO responded to hopes that the weak yen would boost exports with a rise of 170 or 1.5 per cent to 15,530.17 on the Nikkei 225 Average, *writes Alexandra Harney in Tokyo*.

Volumes remained thin at 310m shares, but the benchmark ended at its best level of the session. The low was 15,316.43. The Topix index of first-section stocks gained 0.86 per cent or 10.32 to 1208.68. The Osaka index closed up 138 at 16,304.



Electronics stocks were clear beneficiaries of the weak yen. Fujitsu jumped Y44 or 3 per cent to Y1,530 following news of a plan to develop servers with Intel, the US computer chip leader. Reports that Sharp intended to increase output helped the stock up Y58 or 5.6 per cent to Y1,098. Hitachi improved Y20 to Y908.

Overall, the banking sector was little changed, up 0.2 per cent with many stocks weighed down by speculation about bad debts.

Rumours circulated that the Long-Term Credit Bank might call off its tie-up with Swiss Bank. LTCB denied this strongly, but still led the exchange in volume to close 7.7 per cent, or Y14, lower at Y167. Nikko Securities came off Y8 at Y592. Nippon Credit Bank dropped Y4 to Y122.

The yen also got behind motor stocks. Mazda rose Y15 to Y471 and Toyota Y40 to Y3,400. Nissan softened slightly, retreating Y4 to Y407.

KUALA LUMPUR met with bargain-hunting after a better day in the foreign exchanges for the ringgit. The composite index gained 7.85 or 1.6 per cent at 505.64. Blue chips led the rally with Telekom gaining 30 cents to M$7.60 to account for nearly 30 per cent of upturn for the benchmark index.

SEOUL was overshadowed by worries about the yen and the impact that the weak Japanese currency is having on South Korea's export competitiveness.

Samsung Electronics tumbled 4.8 per cent to Won46,000 and POSCO lost 2.3 per cent to Won46,800. The Kospi index retreated 6.66 or 1.9 per cent to 339.22.

TAIWAN retreated as the Taiwan dollar fell to an 11-year low in early trading. The weighted index ended 135.64 or 1.8 per cent lower at 7,455.63.

Investors failed to respond to a government package of stimulus measures, including easing of margin trading restrictions and accelerating approvals of international and local investment funds.

The Securities and Futures Commission is to recommend that the sale of state shares, part of Taiwan's liberalisation programme, be halted. ASE, the integrated circuits maker, fell T$4.50 to T$67.

BANGKOK closed 1.3 per cent lower as concerns over the economic health of the region weighed on sentiment and the composite index fell 4.12 to 308.25.

The building and furnishing sector fell 6.3 per cent and the machinery and equipment sector lost 5.5 per cent. The banking index lost 3 per cent with Thai Farmers Bank down Bt2 to Bt47.

EMERGING MARKET FOCUS

Lagos looks to life after Abacha

International investors will be watching the outcome of today's central bank currency auction in Nigeria for signs of the likely trend in local financial markets following the sudden death of its military leader.

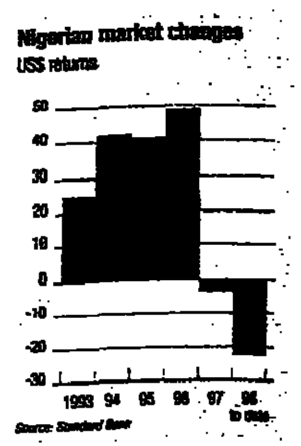
Demand by local banks for US dollars at the weekly auction had been running at around $60m for much of this year. That figure rose to around $90m in the last few weeks as political uncertainty grew ahead of the planned presidential elections in August.

Analysts attribute much of the increased demand to local and foreign businesses taking money out of the country ahead of the elections. Withdrawals have pushed down the the naira, which has declined by around 15 per cent since January. The naira now stands at N86 to the dollar at the central bank rate, and N93 to the dollar at the street rate.

"If demand for dollars goes beyond $100m, then it will be a sign that there is continued concern about the military's intentions to hand over power and I expect a sharp decline in the currency and equity markets," said Philip Ihenacho, director of Afrinvest, the London-based investment banking firm. "What is needed is a positive statement on the future before investors can go in again."

Dealers on the Nigeria Stock Exchange, capitalised at around $2.2bn, are hoping such a declaration on the country's political future will also bring salvation to a market that has fallen more than 20 per cent in the past 18 months.

As well as the political uncertainty, several other factors are blamed for the decline in equities. Analysts cite the higher rate of return in the debt markets, where commercial paper yields more than 20 per cent, as one of the main reasons for the move out of shares.



Corporate results have been mixed with poor figures from consumer companies. In April, Lever Brothers, the Nigerian subsidiary of Anglo-Dutch group Unilever, reported a loss of N92m ($1.015m) for the year to December 1997 against profits of N1.9bn the previous year. Nigerian-listed subsidiaries of petrol distributors such as Total, Mobil and Texaco have been hit hard by a refined oil shortage that has surprised many, given Nigeria's status as one of Africa's biggest producers.

"What we have seen is manufacturing grinding to a halt for lack of fuel, weakening the economy further but also driving investors away from oil distributors," said one analyst.

Christopher Hartland-Peel, Africa analyst at Standard Bank, believes investors should tread carefully before investing in Nigeria. "Many positive things have been happening in Nigeria, but I think investors should hold off investing. The political risks outweigh the short-term opportunities."

Yesterday, the equity market languished as dealers waited for a statement on Nigeria's political future from General Abdulsalam Abubakar, the new military leader. It closed at 5,925.63, down 6.47.

Joel Kibazo

FT telecoms

FINANCIAL TIMES REVIEW OF THE TELECOMMUNICATIONS INDUSTRY

Wednesday June 10 1998

Data transmission rather than voice calls will dominate the global telecoms network within the first few years of the new millennium, thanks to new communications links and the convergence of telecoms and computers. **Alan Cane** reports

Operators race to surf 'data wave'

A combination of optical and digital technology is forcing the pace in global communications. To put this in perspective, North America's entire long-distance telecommunications traffic can now be carried on a single pair of optical fibres, each about the thickness of a human hair.

And earlier this year, the first laser light beams carrying commercial data were pumped into the southern arm of Gemini, an advanced undersea telecoms cable linking London and New York.

When the northern arm is completed in October, Gemini, owned by WorldCom of the US and Cable and Wireless of the UK, will provide several times more transmission capacity than all the existing transatlantic cables combined.

Gemini is, however, only one of a number of fibre optic cables planned or under construction which will vastly multiply the world's available sub-sea transmission capacity. Project Oxygen, for example, due for completion in 2001, will provide 2m equivalent telephone circuits at a data rate of 160bn bits of information a second. It will connect every continent except Antarctica, nearly doubling the number of kilometres of fibre under the oceans.

Project Oxygen is described as a "super Internet", which hints at the reason for the profusion of new cables now snaking across the sea bed. They are early indicators of the approach of the "data wave" which will see data transmission rather than voice calls dominate the global telecoms network within the first few years of the new millennium. Data services – the Internet, on-line information and bulk data – are currently growing at about 25 per cent a year.

According to some estimates, the market for data in Europe alone could be worth more than $30bn a year by 2001, or about the same size as today's cellular phone market. US consultancy Forrester Research estimates that Internet-related service revenues in the US are likely to grow from $7bn in 1997 to $327bn in 2002.

Telecoms networks tuned to voice conversations, however, are not well suited to data transmission. Telecoms operators are therefore investing heavily in new networking technologies.

The first commercial applications of a transmission technology called ATM (Asynchronous Transfer Mode) are being implemented, for example. ATM offers a compromise between the voice-friendly attributes of the public switched telephone network and data-friendly systems such as the Internet.. It is generally thought to be the technology of choice for the information superhighway.

Some idea of the principal operators' commitment to data technologies can be gauged from British Telecommunications' plans, announced last month, to invest £800m over the next four years on new data transmission technology.

BT committed £300m to ATM switches in February this year; the new investment will be split between ATM infrastructure and Synchronous Digital Hierarchy (SDH or Sonet) transmission equipment. SDH is a communications standard geared to the simultaneous transmission of voice, data and video.

The new, upstart, telecoms operators such as Qwest, WorldCom and Level 3, all US companies, and the European-based operators Colt and Esprit, are also spending heavily on advanced infrastructure – and they do not have the obsolete systems of their older rivals to maintain or pension off.

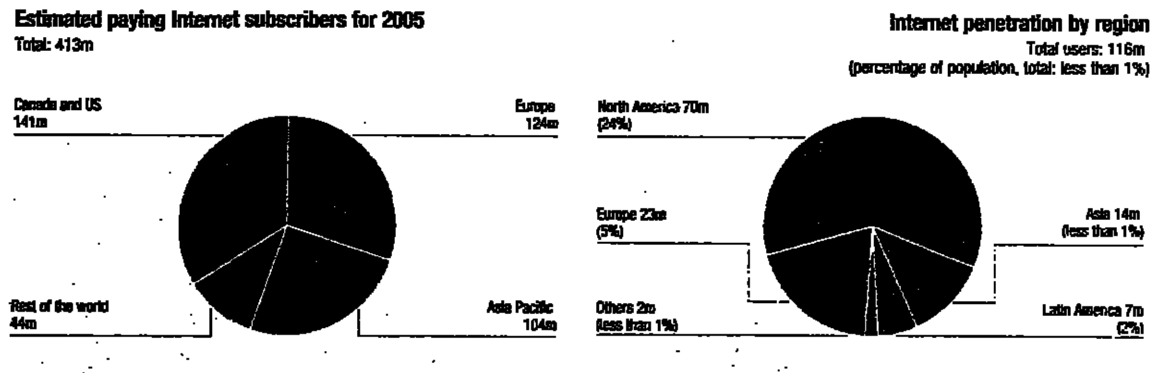
The data wave is not limited to land and sea. Last month, Teledesic, a US satellite venture, and the US manufacturer Motorola agreed to collaborate in the construction of a multi-million-dollar "Internet in the sky" – a network of about 200 orbiting satellites beaming information to subscribers' personal computers. Services are expected to start in 2003.

According to investment bank Morgan Stanley Dean Witter: "The industry is moving from the economics of scarcity to the economics of abundance. Just as in the computer industry 10 years ago, increased commoditisation is lowering the barriers to entry, rendering old notions of "natural monopoly" obsolete . . . the flip side of this evolution is that a fibre optic-cabled and digitally-encoded network provides massive potential for new, valued-added, content-rich services."

This convergence of telecoms and computers is becoming the most important of the technological developments which, together with liberalisation and globalisation, are reshaping the communications business.

Huw Hampson-Jones, newly appointed head of Siemens-Nixdorf's worldwide telecoms division, says communications networks will be delivering voice, data and video to the desktop – essentially to the personal computer – before 2005.

He believes there will be strong demand for the systems integration experience of companies such as Siemens-Nixdorf, EDS and IBM of the US and Cap Gemini and Sema Group as telecoms operators attempt to overlay computer intelligence on their networks to handle the data wave.



Source: Company data, CSFB

His views are underlined by Werner Knetsch, the Arthur D. Little consultant who last year warned telecoms operators that they risked losing control of their customers to computing groups such as Microsoft and Netscape.

Mr Knetsch believes now that the operators have responded to the threat. He says they are taking the Internet seriously, pointing to the example of Deutsche Telekom which two years ago denied the importance of the Internet but has now launched a trial of Internet telephony in Germany among 1.5m customers.

Mr Knetsch says that operators must realise that their customers want solutions to their communications problems rather than simple capacity. Systems integrators and software companies will intervene if operators cannot deliver pre-packaged solutions.

To quote the title of an address he gave this year: "Business on-line is about business, not on-line."

Transmission infrastructure is the hardware element of the data wave. Billing systems and customer care systems are the software component. These complex pieces of computer programming are critical to the success of a modern telephone company.

Analysys, the Cambridge, UK-based consultancy, points out that with full and unfettered competition a legal if not practical fact in most areas of the world, network operators and service providers have to deliver both the financial returns promised to investors with improved services for customers:

"To do so while facing intense competition is impossible without an effective billing and customer care system," it says.

The Internet itself can have a role in billing, however: Analysys points to a recent alliance between Cisco systems, a leading vendor of Internet data switches and a Danish software house, Belle Systems: "The alliance aims to develop an Internet management system able to bill by usage, time, bandwidth allocation, distance, application and quality of service."

Other, similar, alliances include Hewlett-Packard and Portal Information Network, LHS Communications Systems and Microsoft and GRIC Communications with Cisco.

The aim of these developments is to move away from the flat-rate charging structure which applies to most Internet tariffs today, towards more sophisticated ways of charging for different services and, critically, different content.

The demand for content is likely to lead to large-scale mergers between computer, media and telecoms companies. Don Cruickshank, the former UK telecoms watchdog, has already warned of the dangers of the emergence of new kinds of communications groups which are not catered for by existing regulations.

New rules, he said, were essential if consumers were to be properly protected. Few areas of the telecoms business will be unaffected by the arrival of the data wave.

New technologies

A look at some key technical developments including terrestrial trunked radio (Tetra), cellular data, satellite systems and fixed wire access

Pages 3 & 4

Telecoms in Europe

FT writers report on regional issues including regulation in the UK and developments in Germany, France, Italy and eastern Europe

Pages 5-8

Industry issues

The industry's hot topics including fixed mobile, convergence, mergers and acquisitions, fraud and theft, and the millennium bomb

Pages 9 & 10

VIEWPOINT • By Alan Cane

Trust and credibility

The case for an electronic code of trading standards is becoming overwhelming

Electronic commerce conducted by the primitive trading methods which now obtain on the Internet is an easy target for fraud and deception.

There is no adequate way of testing the probity of an electronic retailer: no reliable guarantee of the quality of goods or services offered before delivery. The ubiquitous nature of the Internet and the huge number of subscribers means that a simple scam can produce large profits for its perpetrators in a remarkably short time.

In one example, fraudsters used free pornography as a bait to tempt subscribers to their website, routeing subsequent calls at premium international rates via a switch in Moldovia. In the three months before telecoms operators, besieged by subscribers angered by substantial unexplained international call charges, closed them down, they amassed $10m. The victims, it could be argued, had only themselves to blame by accepting "free" goods from a website without track record or reputation. But the most respectable companies can be party to dubious electronic trading.

Last year, admittedly for brief periods, UK operators including British Telecommunications and Cable and Wireless were involved with a sex-line company which exploited "short-termination" – international calls apparently passing through the UK en route to a call centre in Sierra Leone were in fact redirected to a London address. Callers, however, paid the full international call charge.

The fact is that the operators of many websites will be unfamilar to most Internet subscribers. There is, as yet, neither regulatory body nor moderating institution that subscribers can turn to for redress in case of fraud, deception or merely dissatisfaction. Which is why the issue of trust and credibility in electronic commerce is now the subject of intense discussion among technologists, academics, and industrialists.

Roger Wallis, director of the multimedia research group at London's City University Business School, has put forward the concept of *credibility capital* – by analogy with intellectual capital – to describe a company's relationship with its customers and trading partners. "We argue," he writes, "that credibility capital should assume at least the same degree of importance as intellectual capital." He points out that it is a complex concept; a combination of reputation, brand image, the ability to offer satisfactory guarantees against fraud and other less tangible factors.

Most companies build their reputation and the reputation of their brands over a long period. It is revealing that AT&T, the largest and oldest US long-distance carrier, has a reputation for quality which extends far beyond its own customers.

A recent survey carried out by the consultancy Cob-a-Renaissance noted that although respondents consistently rated AT&T as the carrier that they thought was the best, more than 90 per cent of those who voted for the US company were not AT&T customers. About a third of MCI's customers, for example, felt that AT&T was the better carrier. It seems that, over the years, AT&T has managed to project an image of quality service that others accept without experiencing it at first hand.

Electronic commerce, however, is developing at such a rate that these ways of establishing trust and credibility cannot keep pace. We are, after all, entering a world where customers are likely to shop using mobile phones to inspect goods and place orders from anywhere in the world.

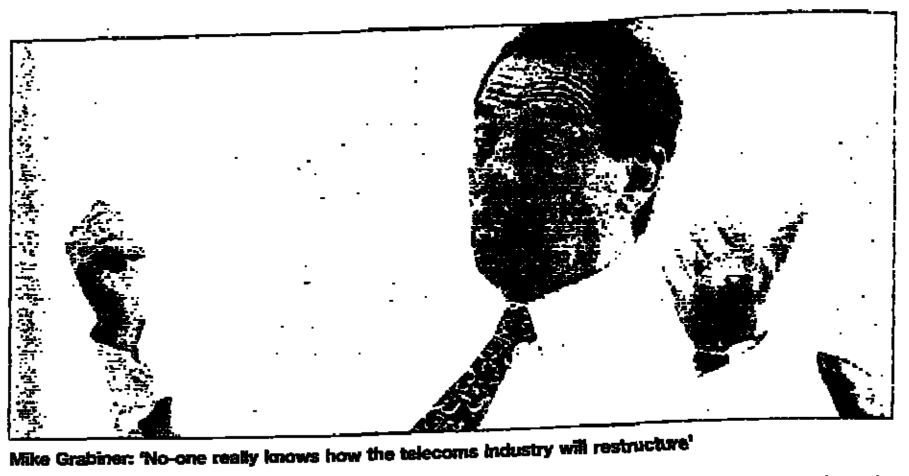
The Internet remains stubbornly self-regulating and resistant to controls imposed from elsewhere. A system of self-certification of the kind set up by travel agents and tour operators with a distinctive logo and perhaps a central fund to compensate customers if a retailer defaults is one possibility, although it is easy to see how determined fraudsters could fake or evade membership of such a system.

The problem is similar to that of entrusting encryption keys to electronic trading messages with a third party. The the honest will obey the rules; the dishonest will not. The case for the emergence of an electronic code of trading standards is becoming overwhelming.

ON THE LINE: Mike Grabiner, chief executive of Energis • By Joia Shillingford

Lighting up the dark fibre

A licence for the next generation of mobile is just one of the routes which the Energis chief is considering for boosting access to his network



Mike Grabiner: 'No-one really knows how the telecoms industry will restructure'

Mike Grabiner's mission is to keep the network of Energis, the UK telecoms group floated by National Grid, humming with traffic. That is why he is bidding for a next-generation mobile licence, with a little help from investment bankers N. M. Rothschild.

The attraction of next-generation mobile is that it would enable companies to connect to Energis without needing a dedicated local link. This would mean many more customers for its high-speed fibre-optic network.

Business customers, Energis's main focus, could also use next-generation mobile, known as Universal Mobile Telephony Services (UMTS), to connect to Energis while on the move. They could use it either for data – it offers far higher data transmission speeds than current mobile networks – or for voice. A foot in both the fixed-line and the mobile camps would also make it easy to package services together.

Mr Grabiner says: "No-one really knows how the telecoms industry will restructure, but customers will want to buy telephone services from one place.

"Integration of fixed and mobile telephony would also enable all sorts of new services to be created. For example, both fixed and mobile phones could be seen as extension numbers off the company switchboard. And the system could work out where the user was and route calls to the nearest fixed or mobile phone."

However, Mr Grabiner is not really interested in offering mobile telephony to consumers and may well partner with another company to bid for the UMTS licence. One possibility is UK cellular operator Vodafone, which already has a link with Energis and an interest in fixed-mobile integration.

Under an agreement reached last November, Vodafone can resell Energis fixed-line services to companies which want to buy a complete telephony service. Mr Grabiner will not say how much he is prepared to pay for a UMTS licence but he adds: "I would need assurances that there was going to be a level playing field, so that BT would not be able to assume too dominant a position if it bought the rest of Cellnet [a rival to Vodafone]."

The auction for UMTS licences has been delayed from this year to next, according to Mr Grabiner. And it is not yet clear who will be allowed to bid. When the Personal Communications Network licences were up for grabs, the existing mobile companies Vodafone and Cellnet were not allowed to bid.

But a possible mobile licence is only one route Mr Grabiner is considering for increasing access to his network. He is already part of a joint venture company, MetroHoldings, with France Télécom and Deutsche Telekom, that is building fibre-optic metropolitan area networks in key UK cities such as London, Manchester and Birmingham.

He is also very interested in Nortel and Norweb's Powerline technology, which enables data services, such as Internet access, to be brought into buildings over standard electricity cables. This seems appropriate because Energis's own network is wrapped around the National Grid's pylon earthwires.

For a man who has a first degree in economics from Cambridge, Mr Grabiner takes a great interest in technology. Only last month, the company announced a new service which makes it easy for a company to link its computers to each other (eg in intranets) or to the Internet without having to install special networking equipment. "This will speed up the time a business takes to deploy a network," says Mr Grabiner.

Meanwhile Energis is a big operator in providing capacity to Internet service providers, carrying about half the UK's Internet traffic.

Mr Grabiner also has some lower-tech approaches to filling Energis's dark fibre, the part of its fibre-optic network which is not yet switched on. He says: "In the US, telecoms wholesaling – selling spare capacity to other telecoms operators (telcos) is popular. It is less widespread in Europe, but the market will grow."

He says that Energis's dark fibre is about 25 per cent full. "We switch it on by adding various networking equipment as and when it is needed."

Mr Grabiner seems like a man in a hurry to fill more of the network, despite a set of good results at the end of May. The company, floated last December for £846m, reported a 73 per cent rise in turnover to £167.9m for the year ending March 31. It delivered £16.1m in earnings before interest, tax, amortisation and depreciation compared with a loss of £14.3m the year before. Its revenue from higher margin, advanced services, such as Asynchronous Transfer Mode, grew faster at 82 per cent, reflecting the capabilities for which the Energis network was designed.

Customer accounts gained or substantially expanded during the year included Lunn Poly, Post Office, Greenalls, the BBC, Boots, Mirror Group Newspapers and Eurostar.

At present, Energis has technological leadership. It is the only UK national fibre-optic network using SDH – Synchronous Digital Hierarchy switching technology. Fibre makes its network fast for large quantities of data; SDH makes it resilient.

Breakthroughs in fibre-optic technology mean that it is relatively cheap for any company with a fibre-optic network to increase capacity by 8, 16 or even 80 times. This is likely to make such companies acquisition targets – or to interest them in expanding into the local loop in metropolitan areas.

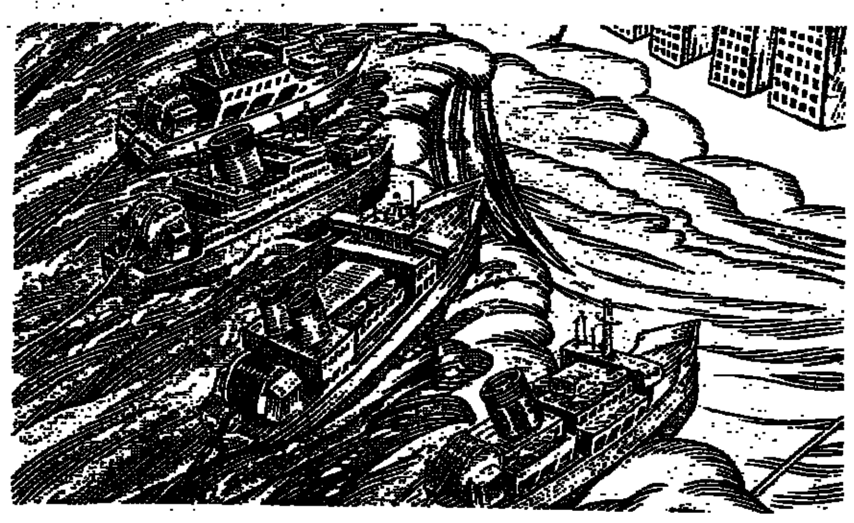
Mr Grabiner says Energis is looking at a number of UK cities and weighing up whether to add more cable or acquire a company with a metropolitan area network. In London, Energis shares some capacity with Colt, which has a London fibre network, as well as having some capacity of its own.

Before joining Energis in 1996, Mr Grabiner worked for BT and before that for the Post Office. When it split in two, he continued with the BT half. He did well under Ian Vallance, BT's chairman, getting some high profile appointments. These included finance and marketing posts, as well as responsibility for managing the Sovereign Project to restructure BT. While at BT, he found time to do an additional degree – at the London Business School.

Mr Grabiner says that when doing a stint as director BT Europe, he gained a taste for competing against established operators. So, when he was offered the job at Energis, he was attracted by playing David to BT's Goliath. Now he sees Cable & Wireless and BT as his main competitors and almost certainly plans to turn Energis into a Goliath itself.

Energis currently has just over 2 per cent of the UK telecoms market and Mr Grabiner clearly has no intention of letting it stay there for long. He probably even dreams of how to fill that dark fibre.

FT telecoms



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TERRESTRIAL TUNKED RADIO SYSTEM • By George Black

Tetra likely to complement GSM

Industry expers believe there i: room for the tro standards to srve different markts

Tetra, the TErstrial Trunked RAd system, looks liily to complement GSN the Global System forMobile communications, me than to compete with it. xperts believe that Tetra ill suit professional users wo have high demands for ecurity, speed and reliabilit, while GSM will dominat in the mass market.

"There may be sne competition between tem for routine, one-to-or mobile calls, but broadlyhey will be different marks," says Duncan Swan, a sior consultant with UKtelecoms consultancy Masc Communications.

GSM Phase 2+ presently stalled, but everwhen the new standard is pmulgated it will not provi the same range of featurr as Tetra, according to Mrwan.

John Drake, grup managing director of ambridge-based equipme manufacturer Simoco, sas: "Tetra is much more lika data communications service than a telephone service. It is the need to send more data which will drive people to Tetra."

The experts say that Tetra has several big advantages over GSM for professional users, including fast call set-up, a data rate of 28.8 kbps against GSM's 9.6kbps and the ability to communicate messages to multipoints. GSM may offer cheaper systems, but it cannot do what Tetra does, which is to support calls on which lives depend.

Tapio Heikkila, vice-president of the mobile radio business for Nokia, one of the leading manufacturers, says Tetra will also be able to prioritise calls and to connect handsets directly without going through a base station. Tetra should also have big advantages over the analog radio systems which it will mainly replace, including better sound quality in difficult environments and a more economical use of the radio spectrum.

To send data, analog radio uses a lot of spectrum, which is a scarce resource in most industrialised countries. The move to digital will release spectrum for new applications. Also, digital mobile radio systems will be more easily maintained than the old analog systems, because most of the work can be done remotely without human intervention.

Duncan Swan: 'There may be some competition but broadly they will be different markets'

Tetra service facilities
Compared with other technologies

	Tetra	GSM	Mobile data
Fast call setup	Yes	No	No
National coverage	Yes	Yes	Yes
Voice channels/100 kHz	16	4	n/a
Data rate (kbps)	28.8	9.6	4.8
Voice service	Yes	Yes	No
Short message service	Yes	Yes	Yes
Circuit mode data	Yes	Yes	No
Packet data	Yes	No	Yes
Point to point	Yes	Yes	Yes
Point to multi-point	Yes	No	Yes
PMR services	Yes	No	No
PSTN/PABX gateway	Yes	Yes	No
Call hand over	Yes	Yes	No
Telephone features	Yes	Yes	No

Source: Tetra MOU

Tetra and GSM are both standards set by the European Telecommunications Standards Institute (Etsi). Tetra looks as if it could emulate GSM in spreading beyond Europe to become a world standard, although there are doubts about its acceptance in the US and Japan, where strong domestic manufacturers support other standards.

Since 1994, Tetra has been promoted by a worldwide group of users, manufacturers and other interested parties known as the Tetra Memorandum of Understanding (MoU). Trials have been taking place throughout Europe for a couple of years and the first contracts are now being awarded.

The UK and the Scandinavian countries are furthest ahead. The UK's first Tetra system, employed by the West Midlands Ambulance Service, went live a few months ago. And last October, the British government announced that it would move the country's emergency services onto a Tetra network. It has awarded the planning phase to the Quadrant consortium, consisting of BT, Nokia, Motorola and TRW.

That phase is scheduled to be completed in July, after which the chief constables of the UK's police forces have to decide if they want to go ahead with the Private Finance Initiative scheme, which is planned to be the largest Tetra venture so far. A pilot project in Lancashire encompassing police, fire and ambulance services has been outlined. At present there is no other bidder for the contract.

The first large-scale commercial Tetra network is being built in the UK by Dolphin, formerly known as Tetralink, part of a group controlled by Telesystem of Canada. It is to be rolled out in 1999 in urban areas as a public access mobile radio service aimed at closed user groups such as vehicle fleets, sales forces and construction sites. The network is expected to cover 90 per cent of the population by the end of next year. Ted Beddoes, Dolphin's chief executive, says there is a potential UK market of 2.7m users. He hopes to move 80,000 analog users across from existing analog radio systems.

Mr Beddoes says there are many people who use GSM mobile phones when they are out of range for their analog mobile radios; these people will be able to do without GSM when digital mobile radio is available.

The loss of business to the GSM networks from this type of migration could be relatively small, but it would be an important gain for Tetra operators. Professional users could also switch from GSM to Tetra because they find that access to their company intranet is quicker and more reliable through Tetra.

Other European countries are not far behind the UK. Last year, the Finnish government started to build a national Tetra network. One of the most important trials is being conducted by Tele Danmark in Copenhagen. Dutch and Belgian safety authorities are expected to begin construction of Tetra networks in the next few months.

Similar schemes are due to be launched in most other European countries and interest in Tetra is now also being shown outside Europe. Trials are being conducted in Australia and New Zealand.

Tetra base station: The first large-scale commercial Tetra network is being built in the UK by Dolphin, formerly known as Tetralink

CELLULAI DATA • By Geoff Nairn

Newgeneration of services will offer data on the move

Operatos must decide whether to invest nw in network upgrades or wait a fw years and invest in "third generaton" cellular technology

The cllular telephone is on of the telecommunation industry's great sucess stories. But rowth inthe mobile voice narket isslowing in counries whre penetration is lready hgh and so cellular operator are looking to stimulate fresh growth with a new generation of data services that can be accessed on the move.

Data is today a small part of the traffic on cellular networks. UK consultancy Ovum estimates there are 5.5m data users in western Europe – about 4 per cent of the cellular market – and perhaps 16m worldwide. Nevertheless, data services are likely to play an increasingly important role in the development of cellular networks as more sophisticated data technologies become available.

Current cellular technology limits data speeds to 9,600 bits a second – adequate for reading e-mail or transmitting short files but not for surfing the Internet, for example. "Web browsing with a cellular connection does work but the quality is so low that most people are not interested," says Eero Vallstrom, vice-president for new radio systems at Finnish telecoms supplier Nokia.

Graphics-based web pages are particularly slow to download, and typically the graphics must be turned off to obtain acceptable performance. An alternative approach is to reformat web pages so that they can be easily viewed on a cellular phone's small display.

US software house Unwired Planet has developed a "microbrowser" program to do this and is talking to various European cellular operators and handset manufacturers to promote the technology more widely.

A more basic method of transmitting data over cellular networks is using the Short Message Service (SMS) feature which, as its name suggests, allows mobile phone users to send and receive short text messages of up to 160 characters. Using this feature, e-mail can be read on the small screen of a mobile phone if no computer is to hand.

CMG, the European IT services group, has supplied SMS technology to more than 30 mobile operators throughout Europe and claims that despite its obvious limitations, SMS provides an ideal "platform" for supporting value-added data services, such as transmitting share price information, football results or bank balances.

International Data Corporation recently conducted a survey on mobile phone users in the UK, Germany and the Netherlands. The survey, commissioned by CMG, shows 29 per cent of respondents currently use their mobile phone to send and receive e-mail. IDC predicts this figure will grow to 79 per cent by 2000.

For accessing the Internet, the drawbacks of cellular networks are more apparent although a surprising 12 per cent of respondents already access the web this way and IDC predicts this will grow to 64 per cent in 2000.

"We do see a lot of mobile users who are quite prepared to use the Internet at low speed for gathering information," says Mike Crawshaw, data services manager with UK cellular operator Orange.

Many organisations would like to open their corporate intranets to their growing armies of mobile workers. In the US, one third of the workforce is already mobile, and Yankee Group, a research firm, estimates 83 per cent of large US corporations will be providing field service and sales personnel with wireless intranet access by 2000.

However, today's cellular networks were designed for voice traffic and must be modified to support greater data traffic. The Internet and intranets pose particular challenges because they are "packet-switched" networks designed to handle "bursts" of data. Cellular networks, by contrast, are "circuit-switched" systems designed to handle low-speed, short-duration voice traffic. The two are radically different.

One solution, called General Packet Radio Service (GPRS), seeks to overcome the barriers between the two worlds by connecting each cellular base station directly into the Internet, thus bypassing the switching systems used to connect voice cellular traffic into the traditional phone network.

"GPRS is optimised for bursty Internet traffic," says Mr Vallstrom, who predicts the first GPRS systems could be marketed commercially in 1999 or 2000. GPRS requires the cellular operators to upgrade their base stations and users to buy new terminals that support the new standard.

High Speed Circuit Switched Data (HSCSD) is another technology designed to boost the data capabilities of today's cellular networks to 56 kilobits a second from the current 9.6kbs. According to Mr Vallstrom, HSCSD is close to commercialisation but it also requires both operators and users to upgrade their equipment.

Network operators face a difficult decision: do they invest now in network upgrades to support a still small market for higher-speed data services, or do they wait a few years and invest in new "third generation" cellular technology, predicted to arrive in Japan in 2001 and in Europe a year later. Few operators can afford to adopt both strategies because "the third generation systems are going to need massive investment," says Alex Nourouzi, Ovum senior consultant.

COMPANY PROFILE Swiftcall

KDD establishes a European foothold

KDD Europe (the UK-based wholly owned subsidiary of Kokusai Denshin Denwa, the Japanese international telecoms supplier) has acquired Swiftcall, a re-seller of international telephone calls to the UK and Irish domestic and small business markets.

Swiftcall's principal delivery mechanism in the UK and Ireland is pre-paid cards. From this month, KDD Europe will offer post-paid services direct to domestic and corporate customers in the UK under the KDD Call 127 and KDD Call Direct brand names, complementing the Swiftcall offer.

According to Yas Matsuda, general manager of KDD Europe and one of the newly-appointed directors of Swiftcall, the acquisition (completed on May 21) provides KDD with an entry to the budget UK market through a recognised brand. On its side, Swiftcall had made no secret of the fact that it was seeking partners for expansion into Europe.

The company also had liabilities which KDD has assumed, and had experienced some technical problems over the past two years. Mr Matsuda says: "Swiftcall was seeking financial stability and technical expertise; KDD needed a marketing vehicle. Both sides are satisfied in this deal." The purchase price for Swiftcall was not disclosed.

KDD is currently seeking licences to operate in France and Germany where it has already built networks. Swiftcall is also poised for a move into Europe. Over the past months Swiftcall had sent pathfinders to research several European countries and, says Mr Matsuda, the two companies will now leverage KDD's network and duplicate their marketing strategies in France and Germany.

Swiftcall was established by Irish entrepreneur Tom McCabe in March 1993, just prior to de-regulation in the UK, and was the first company to break the BT-Mercury (now Cable & Wireless) duopoly of telephone provision in the UK.

The business proposition remains a simple one: Swiftcall bulk-buys switched minutes and leased lines from the network providers such as KDD, BT, Frontier, and MCI, and sells the capacity on to its customers (personal callers and small businesses) at very competitive rates. For the time being, this strategy will continue, although Mr Matsuda says Swiftcall's service will gradually be migrated onto the KDD Europe network.

Selling to the domestic and residential market means the majority of calls made via Swiftcall are off-peak, and Swiftcall's own operations are designed to keep overheads to a minimum. The result is a business turning over £27m in 1997-98 with call rates to the US (the top calling destination) about 10p a minute.

Swiftcall is not the cheapest supplier of international calls. Mr Andrew Fray, group managing director of Swiftcall until the recent change of ownership, says that the company will not sell below cost, as he claims some competitors are doing in an effort to build market share in a very competitive arena. The reseller market is difficult to audit, but it seems likely it controls about 10 per cent of the total UK market of £1bn with two or three suppliers taking the lion's share, but with about 20 others trying to build volumes, according to Raj Rajgopal, vice-president, telecoms at Gemini Consulting.

"This is a rapid, low-cost market to enter but it is very much a niche market where you have to stay nimble to survive," he says. "It is not a market for lumbering giants." Mr Rajgopal believes that network over-capacity has made it easy for resellers to deliver a double blow to the traditional suppliers, by creaming off the most profitable parts of their business and forcing them to reduce costs.

To gain access to the international network at Swiftcall's rates, customers dial the Swiftcall number and key in a personal identification number (PIN) from a scratch-off panel on their pre-paid card. Alternatively, an account can be set up which charges calls to a credit card – in this case, the customer also enters a PIN before dialling the number required. These arrangements provide Swiftcall with a predominantly cash business, with all the associated cash flow and credit control benefits.

Most of Swiftcall's 200 employees are at the Dublin call-centre, registering and managing accounts and providing customer service. As well as its own organisational costs, Swiftcall must meet the costs of interconnection to the networks. An additional 20p charge levied by BT for connections from its payphones is met by the customer.

Mr Fray says Swiftcall's users come from all socio-economic groups in the UK. Some 20 per cent of the customer base is earning less than £10,000 a year, and another 20 per cent more than £35,000 a year. Swiftcall advertises in the quality broadsheets, but gains 65 per cent of all new business from word-of-mouth referrals.

"Anyone who has friends or family in other countries might be a customer," he says, adding that ethnic communities are particularly well represented and have demonstrated a willingness to accept new brands. After the US, Australia and India are the most-called destinations, while calls to France and Germany have doubled over the past 18 months. Traffic from Ireland, where Swiftcall extended its operations about 18 months ago, is also up.

"Pundits said pre-paid calling would never take-off," says Mr Fray. "In fact, this form of service has proved very attractive to anyone on a low budget, or with a mobile lifestyle, because it offers control over expenditure." KDD Call 127 will be marketed primarily to the UK-based Japanese community.

Swiftcall wants to provide a broader portfolio of voice services, and simpler access, in the future. Caller Line Identification (CLI) will enable Swiftcall to offer more payment options such as direct debiting. The company has considered smart-card technologies and is watching e-cash trials such as Mondex and Visa Cash, but currently sees no point of entry for those technologies in its business.

Swiftcall plans to introduce an Internet telephony service "once capacity and routing issues are resolved", probably within the next year. Swiftcall's Global Card already makes it possible for customers to access Swiftcall from 40 countries via a free-phone number. Swiftcall also wants to exploit the market for pre-payment of mobile phone services by badging the service of an existing supplier.

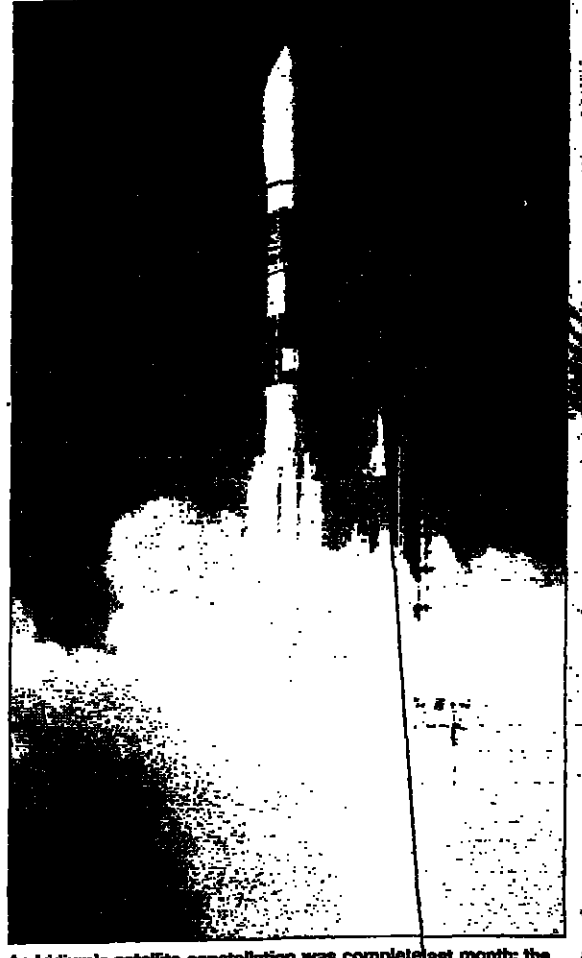
Anne Queree

SATELLITE TECHNOLOGY • By Geoff Nairn

Era of rapid expansion dawns

A new generation of advanced satellite systems will enable operators to offer a vast range of applications

BT Global Satellite Services utilise antenna at London Teleport



An Iridium's satellite constellation was complete last month: the company plans to offer a 'global roaming' facility from September

After years in the wilderness, satellite telecommunications is poised to enter an era of rapid expansion, bringing mobile communications to globetrotters, basic telephony to the developing world and broadband data to corporate users.

Telecoms satellites were until recently considered by many to be white elephants in the sky. Costly to launch and with limited bandwidth, they were no match for the newer optical fibre networks that now ring the world.

Facing obsolescence, the satellite communications industry has therefore had to seek out new applications that do not compete with terrestrial networks. And it has had much success with technologies such as Global Positioning System (GPS), used to track truck fleets, and Very Small Aperture Terminal (Vsat) satellite systems that allow businesses to beam data to multiple sales offices.

But these applications seem quite modest when compared with the new generation of advanced satellite systems currently being developed. A plethora of operators has registered to offer services over the next five years that go beyond the traditional uses of providing fixed circuits and television broadcasts and tap the growing market for international data and mobile telephone services.

Plans for more than 60 schemes have been filed, ranging from systems to expand the reach of today's cellular phone networks, to costly Internet-in-the-sky concepts such as Teledesic the $9bn project conceived by telecoms pioneer Craig McCaw and backed by Bill Gates, Microsoft chairman, and the Boeing aircraft company.

"I do not think we will see that many actually launched and today its quite hard to pick winners," says Julian Chu, senior consultant with Gemini Consulting.

Teledesic is the most famous, thanks to its high-profile backers such as Bill Gates and, most recently, Saudi billionaire Prince Alwaleed. Teledesic hopes to bring broadband data services to areas of the world where optical fibre cannot reach with a "constellation" of 288 small satellites that will be placed in low earth orbit (Leo) by 2002.

The Teledesic project is hugely ambitious – unrealistically so to its critics – but several milestones have already been passed. It cleared its final regulatory hurdle in 1997 and launched a test satellite in February.

Nevertheless, the first operational satellites will not fly until 2001 and, as well as the technical challenges inherent in the system's design, Teledesic faces competition from at least 12 other broadband systems, many of which have not got beyond the drawing board, while others are closer to deployment.

US satellite company Loral Space and Communications is one of those closer to deployment and plans to start selling its CyberStar service to support high-bandwidth intranets, extranets and virtual private networks at the end of this year.

"CyberStar is ideal for companies with multiple, remote international locations, or with a large mobile workforce, or with a need to routinely deliver large data files to numerous locations simultaneously," says Ronald Maehl, president of CyberStar.

Unlike Teledesic, CyberStar has taken an evolutionary approach and plans to use three existing satellites in geostationary orbit positioned over the Americas, Europe and Asia. In April, CyberStar signed a deal with computer manufacturer Hewlett-Packard to include a satellite receiver card in HP's high-end servers, allowing companies to deliver the CyberStar service to desktop PCs via a corporate network.

By 2010, US consultancy Pioneer Consulting predicts broadband satellite systems could have more than 36m subscribers and generate more than $77bn in annual revenues.

Scott Clavenna, senior analyst at Pioneer, believes the new generation of broadband satellite services are ideal for offering high-speed Internet access, particularly for corporate customers, because they eliminate the bottlenecks associated with the "last mile" of today's terrestrial networks. However, there are emerging terrestrial technologies that also address this "last mile" problem and Mr Clavenna cautions that broadband satellite operators who focus purely on Internet access are playing a risky game.

"A broadband satellite system planned today will not be fully operational until 2002-2005. Considering the meteoric rise of the Internet, it is nearly impossible to say what the telecommunications market will look like in 2005, making judgments on how to design systems difficult," he says.

The broadband satellite projects attract much attention but the satellite systems closest to realisation are those that aim to offer mobile voice and narrowband data services in regions where cellular networks do not reach.

Iridium, backed by Motorola, is the best known and its constellation of 67 Leo satellites was completed last month.

It plans to start commercial operations in September offering a "global roaming" facility that will allow users to travel with a handset that can automatically switch between the Iridium system and conventional cellular networks.

The Ecco project of US company Constellation Communications (CCI) is taking a more leisurely timetable – it will not start operations until late 2001 – and it will initially focus on 75 countries in an equatorial band around the globe.

Jerry Waylan, president and chief executive officer, believes there are 50m-100m potential customers in this equatorial band, with Brasil and Indonesia being the largest markets.

"We cover a lot of the right countries. These people have the ability to pay but cannot get telephony services today because they do not live in urban areas," he says.

The Ecco project involves launching 12 Leo satellites for a cost of $50m. "Its peanuts compared with the budgets of some of the other schemes," he says.

Last month CCI signed the US-based Orbital Sciences Corporation, which makes the Pegasus and Torus rockets, to manufacture and launch the satellites. Ecco may expand to cover the entire globe by 2003 for a cost of $2bn, but Mr Waylan emphasises that the project is mainly focused on the equatorial belt.

A veteran of the space industry, he contrasts the low-risk approach CCI is taking – its satellites are relatively low-tech – with the heavy investments and complex satellite designs required by competing systems.

"It's important not to be technology-driven and if there is one thing I have learned during 30 years in this business it is to keep things simple."

FIXED-WIRELESS ACCESS • By Joia Shillingford

How to sidestep the local loop

The technology is gaining ground despite problems with the first UK network roll-out

Graham Duncan: 'Atlantic competes through clear concepts rather than complex discount schemes'

For companies such as Aberdeen, UK-based Atlantic Telecom, fixed-wireless access is the key to bypassing the local loop. But not every telecoms company which implements it succeeds. Is this due to technological or marketing problems? Or simply customer resistance?

The first attempt – Ionica's – at providing a fixed-wireless access network in the UK had problems to begin with, partly because Ionica was helping to test untried technology, which it had helped to develop.

But industry analysts say the real problem was not so much the technology (now stable), but an over-ambitious roll-out plan, combined with a poorly designed network.

"Because Ionica planned to take on British Telecom from the very beginning," says one analyst, "they had to install a lot of base stations at once, which was expensive. In their rush to install, they seemed to put base stations wherever there was a suitable site, without thinking about how they could maximise coverage in more concentrated areas. This meant that although they had lots of base stations out there, some areas were thinly served."

The ambitious forecasts, which could not be met, disappointed investors and Ionica's share price plunged shortly after the company was floated.

However, Ionica's early problems do not mean that there is no market for fixed-wireless access (FWA), or for its services. The company, now under new management with Mike Biden from BT as chief executive, says its network covers 12 per cent of homes in the UK market. And the UK's second FWA operator, Atlantic Telecom, is also expanding.

Mr Biden says there are three big markets for FWA technology:

"First, incumbent telecoms operators (telcos) can use it to reach out inexpensively to remote areas. Telstra in Australia, Telecom Finland and Bell Canada are using it in this way.

"Second, new licensed operators such as ourselves and Atlantic Telecom can use it to bypass the fixed local loop network.

"Third, it can be used in emerging markets, such as the Third World, to provide telephone services quickly to areas which don't yet have phone lines."

Graham Duncan, chief executive of Atlantic Telecom, says: "The importance of bypassing the local loop technology is that new telcos can gain direct access to the customer." He believes that long-distance telephony has become a commodity market, with operators having to compete on price. He says: "They are limited in terms of how they can bundle and promote their services because BT still bills the customer for local services and therefore has a relationship with them."

Similar reasons probably encouraged US long-distance operator AT&T to announce in February 1997 that it was seriously considering offering FWA. However, some AT&T staff and analysts believe that the company no longer intends to do so.

Ruthlyn Newell, a spokeswoman for the company, said it started testing FWA late last year but added: "We're not discussing the testing.. not giving any predictions on when we might come to market."

Meanwhile, in the UK, Atlantic and Ionica are making the most of their customer connections and using innovative marketing and packaging of services to win new customers. For example, both offer to install two phone lines for the price of one, offering cheaper line rental on the second one.

Both also offer some free value-added services. Atlantic provides free voicemail and Ionica can issue three different phone numbers and ring tones for a single line.

Atlantic, which is gradually rolling out its FWA services to Scottish cities, allows customers to phone anywhere in Scotland for the price of a local call. They can also phone London numbers at a local call rate.

Mr Duncan, a former accountant, is a committed marketeer, conducting focus groups to find out what customers want. He says: "It is pointless to compete against BT on price alone because that means you don't set your own agenda, BT does. And when BT changes its prices, you have to too.

"Instead," he says, "Atlantic competes through clear concepts (for example, two lines for one) rather than complex discount schemes."

Atlantic and Ionica say there is little customer resistance to using FWA technology. Mr Duncan says: "We thought this would be more of a problem than it has turned out to be. Some customers are concerned about how good the line quality will be till they try it at our shop in Glasgow."

Atlantic has had some discussions with the local council about the power of its base stations but Mr Duncan says that at 100 milliwatts they are 6,000 times less powerful than a microwave oven. He believes Atlantic's technology is safe.

Radio technology is also available at other frequencies – such as 10 gigahertz and above for broadband high-capacity business-to-business links, 2 gigahertz and below for cellular networks (and for Nortel's Proximity C and T FWA systems), and 3.4-3.6 gigahertz for Nortel's Proximity I technology used by Ionica, Scottish Telecom, Telstra, Bell Canada and others. Atlantic Telecom uses technology from Israeli company Tadiran Telecommunications.

Mr Duncan says customers are interested in the service, not the technology. Atlantic currently offers services to residential and small business customers in Glasgow. Next on the agenda is Aberdeen, then Greater Glasgow. Edinburgh and Dundee will follow. The company also offers services to customers outside its FWA areas via a small box that connects to the phone line, offering customers many of the same deals.

Ionica currently serves the TV regions of Anglia, Central and Yorkshire, including cities and rural areas. Mr Biden says there is plenty of room for growth: "The residential telephony market as a whole is growing at [illegible] per cent and the share of disposable income which UK households are spending on telephony is going up."

Peter McCarthy-Ward: 'We have to expect regulators to pay greater attention to us but it is important that it does not go too far'

UK REGULATION • By Peter Purton

New mood of peace and co-operation

The state of warfare that once existed between Oftel and BT no longer exists. But there are still some differences between the two

Peace has broken out between regulator and regulated, at least when it comes to telecommunications. The days of threat and counter-threat – or bluff and counter-bluff – of referrals to the Monopolies and Mergers Commission or the initiation of court actions between the Office of Telecommunications (Oftel) and British Telecommunications (BT) look as though they may be over. A new co-operative mood has swung in.

"We think the regulatory pressure is tough but necessarily so," says Peter McCarthy-Ward, BT's general manager of UK regulation. "As the largest telecoms operator in the UK, we have to expect regulators to pay greater attention to us than to others but it is important that it does not go too far."

McCarthy-Ward sees the evolution of regulation as a see-saw process as the market liberalises. It starts with a 100 per cent monopoly and strong regulation of that monopoly's activities. But as the market opens up and competition grows in strength, McCarthy-Ward's view is that there should be less and less regulation of BT and more of its competitors until eventually all are subject to equal regulation.

In some areas, McCarthy-Ward believes that time has already arrived.

"We would like to see a common set of rules covering price notification," he says. "With all of the competition in the market today, pricing is a very fast-moving area. At the moment, we have to give Oftel four weeks' notice of intended price changes. That's quite a restriction on our commercial activities. We'd like standardised rules – a level playing field."

McCarthy-Ward acknowledges that Oftel sees the principle that regulation is a surrogate for competition the same way as BT does. The ideal situation, both Oftel and BT agree, would be one where there was no need for a regulator because competition would regulate the market. But he still believes there is room for Oftel to become more lenient towards BT and get tougher with BT's competitors.

"BT is subjected to more onerous responsibilities and interpretation of the rules is more severe than for its competitors. Many regiments are triggered by phrases such as 'significant market power' or are in other ways based on 'judgments'," McCarthy-Ward notes. This, he says, is starting to put BT at a significant disadvantage against competitors.

"Today's business increasingly requires fast change while new regulations require long learning-curve cycles – the two are not compatible."

One area where this is becoming increasingly awkward is that of service provision. Thanks to interconnect agreements – the terms by which one carrier must allow the use of its network by another carrier – it is no longer necessary to build an extensive telecoms infrastructure in order to offer quite a range of telecoms services.

The problem, as McCarthy-Ward sees it, is that there are now very many service providers in the market and not that many companies willing to invest in the infrastructures on which they all rely. The danger is that investment in infrastructure will become increasingly unattractive if virtually anyone is allowed to use it on unattractive terms to the infrastructure's owner.

"The more service providers in the market, the greater the tension with network operators," says McCarthy-Ward. "At the same time, prices for interconnection are very low in the UK. If the people who are not building networks are able to exploit great differences, the greater the tension with infrastructure owners will become."

Another area where McCarthy-Ward would like to see BT given more leeway is that of the use of radio. In the 1980s, when the foundations for today's regulatory environment were laid, the fear was that the former monopoly, BT, could stifle the development of new radio-based services such as mobile telephony if its ability to compete in the arena were not restrained in some way or other.

Today, mobile telephony is one of the fastest-growing, most profitable and competitively most dynamic areas of telecoms. McCarthy-Ward believes the restrictions placed on BT then are no longer necessary. And with the much-talked-about convergence of fixed and mobile telephony – and the prospect of increasing competition between the two – BT is beginning to face a growing disadvantage against its competition.

None of the above are issues on which Oftel is likely to put up too much opposition. One item on BT's menu which might not be so easy for Oftel to digest, however, is that of the power of Oftel itself.

"We would like to see a right of appeal," says McCarthy-Ward.

At the moment, avenues of appeal are restricted to the courts and the Monopolies and Mergers Commission. These are avenues which BT would only use as a very last resort as they would be very high profile, expensive and make huge demands on the company's management time.

On the other hand, enlarging the pool of appeals mechanisms would inevitably weaken Oftel.

The state of warfare that once existed between Oftel and BT no longer exists. But there are still some differences between the two. Right now observers are waiting to see the effects of two important events. The first is the direction the new man at the helm of Oftel will take. The second is the outcome of a government review of the role of regulators in general.

David Edmonds was appointed director-general of telecommunications by Margaret Beckett, president of the Board of Trade, in April. He assumed his duties on May 1. Early indications are that Edmonds, who was managing director of group central services with the NatWest group, will be keen to help UK telecoms companies compete, grow and exploit fresh opportunities to the benefit of the UK economy.

As far as the review of the role of regulators is concerned, BT will argue the case to the government that telecoms is not a utility in the same way as water, for example. And Oftel is likely to say the same.

EUROPEAN OVERVIEW • By Alan Cane

Hectic period for £140bn market

The drive to construct or acquire transmission infrastructure is accelerating, while the trend to strategic alliances has continued

It has been a hectic period for Europe's newly competitive, £140bn telecommunications market – but most of the operators have come through the first six months after market liberalisation comparatively unscathed.

As the investment bank Morgan Stanley Dean Witter put it: "Nobody has died. The lights are still flashing. The telephones are still ringing."

Even Deutsche Telekom – Europe's largest operator which faced a tougher regulatory regime than many had anticipated and immediate competition from the new fixed-line operator Mannesmann Arcor – managed to beat market expectations with a 6.1 per cent improvement in turnover and 9 per cent improvement in profits before tax for the first quarter of the year.

The trend to strategic alliances continued as companies sought to secure improved access to customers and additional traffic to fill their networks. Deutsche Telecom and France Telecom, for example, formed an alliance with Energis, a publicly quoted UK telecoms operator in which the National Grid holds a majority stake, to create a "property company", Metroholdings. The plan is to build local networks in UK cities starting with London, Birmingham and Manchester. The networks will give the partners low-cost direct access to UK business customers. Energis will benefit from fees for building and managing the networks.

Telecom Italia and Cable and Wireless of the UK announced a partnership sealed by an exchange of assets. C&W sold its 20 per cent stake in Bouygues Télécom, the French mobile operator, to Telecom Italia for some $743m. The new partnership, which has proved controversial, with some Italians questioning the benefits to the national operator, means it is unlikely Telecom Italia will proceed with a proposed alliance with AT&T of the US.

Telefonica entered into a loose alliance with WorldCom-MCI of the US. The Spanish operator, which had planned to join Concert, the British Telecommunications-MCI joint venture, had been left in limbo after the collapse of BT's plans to merge with MCI.

It is expected that further consolidation will continue to reshape the industry.

The drive to construct or acquire transmission infrastructure is accelerating. David Oertle, chief executive of Esprit, a European alternative carrier, says the growing demand in Europe for data transmission is causing a shortage of capacity. "I do not see a glut of transmission capacity for years," he said in announcing that Esprit had bought Plenet, a subsidiary of Thyssen in Germany. Esprit is constructing a pan-European broadband network using high-capacity, fault-tolerant Synchronous Digital Hierarchy (SDH) technology.

The newer transmission technologies are providing alternative operators such as Esprit, Energis and Colt with a substantial advantage over traditional operators who, despite their size and customers numbers, are handicapped by large and inefficient networks.

According to the Boston Consulting Group: "Today's fibre optic backbone has up to ten times the capacity of systems deployed a few years ago. It requires less capital and has lower operating costs. As a result, Qwest and WorldCom, two of the newer networks, together have capacity equal to (the US long-distance operators) AT&T, MCI and Sprint combined, for one-tenth the aggregate investment."

The explosive demand for data transmission suggests that there will be ample business for new network operators such as Albacom, Colt, Energis, Esprit, Hermes Europe Railtel and o.tel.o (the German joint venture created by the industrial groups Veba and RWE).

The dramatic growth of mobile telephony in Europe is also contributing to demand for capacity on the principal trunk routes. In Italy alone, there were 12.4m subscribers at the end of February, making it Europe's largest mobile market.

Technology, however, will not be enough. There is a rapidly growing realisation that the key to success in today's noisy, bustling marketplace is customer service. There is ample evidence that the full potential of the new telephone services are not being exploited by European businesses.

The consultancy Datamonitor, for example, says that while companies are used to using the telephone for sales calls, they have yet to understand the importance of building a relationship with customers through the phone: "This is worrying in an environment where 60 per cent of the average company's customers are being called by competitors every week."

And the accountancy group Arthur Andersen concluded, based on research in France, that while businesses understood the importance of telecoms, they had yet to come to grips with what was at stake:

"This is a major block to developing a strategic and coherent telecoms policy. Senior managers find it difficult to believe that telecoms has already become an efficient method of sharing knowledge and increasing productivity."

The Internet provides a telling example. Only 53 per cent of European businesses believe the Internet will have a huge effect on the way they do business, compared with 61 per cent of US businesses and 69 per cent in the Asia Pacific region, according to BT.

European telecoms operators, on the other hand, are taking the Internet seriously. They are aware that by the end of 2000 as many as 80m personal computer users will have access to the Internet, representing potentially huge losses of revenue to Internet telephony: the use of the Internet to carry calls as packets of data at low prices.

Investment bank J.P. Morgan says that a surprising number of European operators have already moved towards controlling the Internet telephony market by developing their own services or buying Internet companies.

Tele Danmark and Deutsche Telekom, it suggests, have taken the most radical approaches. Tele Danmark is already the largest Internet service provider in the country and Deutsche Telekom is offering Internet access through its high-speed ISDN lines at modest cost.

GERMANY • By Ralph Atkins in Bonn

Competition has developed in unexpected directions

The full impact of the new regime is uncertain after only five months of full liberalisation. But the extent to which Germany has pulled down the barriers is surprising

In Germany, telecommunications liberalisation is taking place at a pace, and to an extent, that few predicted.

Five months after Deutsche Telekom lost the last of its monopoly markets – public voice services – competition has developed in unexpected directions. The most obvious beneficiaries have been opportunistic companies such as MobilCom, the Schleswig-based group, which listed on Germany's Neuer Markt for smaller innovative companies only last year.

Relying heavily on infrastructure rented from Deutsche Telekom, MobilCom says it is already making profits and carries at least 3.5m minutes of conversations a day on its fixed line business.

In the process, Gerhard Schmid, its founder and chief executive, has become a D-Mark billionaire almost overnight.

But other companies, particularly the country's large energy and industrial conglomerates such as Veba, Mannesmann and RWE – which have followed a more traditional German route, investing heavily in infrastructure – are also eating into Deutsche Telekom's market. And the billions committed to building new telecoms networks is such that they can almost not afford to fail.

The extent to which real competition is erupting can be gauged by the reaction of Deutsche Telekom. For months it has barracked Klaus-Dieter Scheurle, head of Germany's new independent post and telecoms regulatory authority which came into operation on January 1.

Within days, Deutsche Telekom had provoked a self-damaging row over the amount it could charge customers who wished to contract to competitors. More dramatically, in May it announced provisions of between DM3.5bn and DM4.5bn to cover the cost of an adverse ruling on charges for its cable television network (long regarded as a potential alternative telecoms network).

The level of provisions is such that Deutsche Telekom might even have to cut its dividend this year – a move unlikely to endear the group to its thousands of small shareholders following its partial privatisation in November 1996.

Much might be posturing, but Deutsche Telekom's unease reflects Mr Scheurle's pledge "to be a very strong regulator". He is backed by Germany's 1996 telecommunications law which, he says, is the most liberal in the world. "It ensures that each and everyone can operate in this important market of the future. Market entry is open to all – in particular there are no restrictions of any kind on foreign companies."

The extent to which Germany has pulled don the barriers is perhaps urprising for foreign comanies suspicious of a coury in which the boundary bween politics and business iften blurred and many of tl biggest companies are usl to cosy co-operation rher than fierce competition

Suspicions were raisl by the fact that the goverment remains the largest sareholder in Deutsche Telem – giving it every incenti to urge an easy ride for thfor-mer monopoly. But wile Jürgen Stark, state secrary in the Bonn finance miniry and member of Deutshe Telekom's supervisory board, has warned the regulator of the impact of is decisions on Deutsche Tekom, Mr Scheurle has wn important backing frc Günther Rexrodt, the economics minister and member of the liberal Free Democratic Party, junior membe of the Bonn centre-rigt coalition.

So far, more than 50 companies are offering telephone services. Prices have been cut by as much as 70 per cent.

But it is not just the ease of access to the telecoms market that puts Germany at the forefront of liberalisation. Mr Scheurle has deliberately intervened to ensure the development of full competition, where necessary at the expense of the former monopoly. Deutsche Telekom has been hit by a internationally-low "interconnection" rate of 2.7 pfennigs a minute set by the telecoms regulator for connections between rivals' networks and Deutsche Telekom.

That low rate, for instance, is one of the reasons why MobilCom has been so successful. MobilCom, and other similar companies, may also have benefited at least initially from confusion – still unresolved – over where the distinction should be drawn between rival network operators entitled to the "interconnection" rates and simple "resellers" of telecom services which might have been charged more.

Meanwhile, Mr Scheurle has clamped down on Deutsche Telekom's plans to charge customers who contract permanently to rival suppliers using so-called "pre-selection" rather than choosing their carrier call by call.

Until the row is settled, Deutsche Telekom cannot charge anything – so customers can switch cost-free. Mr Scheurle has also ruled that telephone numbers belong to the customers and Deutsche Telekom cannot charge customers who wish to take them to a rival supplier.

Also still to be resolved is a final agreement on the terms under which Deutsche Telekom has to offer unbundled access to its network services – a move that requires a complete opening up of the local loop to competitors rather than stipulating that services are taken only on Deutsche Telekom's terms.

After only five months of full liberalisation, the full impact of Germany's new regime is uncertain. Competitors have taken approximately a 2.5 per cent market share and are expected to have reached 5 per cent by the end of the year with the trend clearly upward.

What might curb such full-blown competition? The most obvious threat is of court action reversing Mr Scheurle's decisions – or at least creating confusion about the application of rules. Deutsche Telekom is challenging his rulings on a number of fronts – including the interconnection and cable television rates.

Deutsche Telekom has failed to win rulings that might hamper its competitors by suspending regulatory decisions. But the possibility is not passed.

Klaus-Dieter Scheurle: promised to be 'a very strong regulator'

FRANCE • By David Owen in Paris

Privatisation pays dividends

Charges are down and services are improving, but consumers think there is still room for improvements

Bernard Zuber, a college member on the Autorité de Régulation des Télécommunications (ART), the French telecoms watchdog, clearly harbours no doubts on the subject.

"Very definitely, yes," he says when asked whether French businesses and consumers are getting a better service following full liberalisation of the country's telecoms market. "In a way that is undeniable. It is totally evident in our view."

Competition may be firmly entrenched in France's buoyant mobile phone sector where Cegetel and Bouygues vie effectively for business with France Telecom, the country's former monopoly telephone operator. But it is a much more recent phenomenon, as far as most of the general public is concerned, in fixed telephony.

Full liberalisation dates only from January 1 this year and Cegetel – expected by many to emerge as France Telecom's leading domestic competitor for fixed services as it has in mobile – did not launch its "7" service until the following month, and then only in certain regions. By the end of April, it was claiming 170,000 clients, with nearly 2m minutes of communications a day carried by its network.

Mr Zuber believes the improvement already experienced is due largely to a reduction of costs. Figures produced by the ART suggest that telephone bills for typical household and business users have fallen since 1995, with increased subscription charges more than cancelled out by reduced rates for the calls themselves.

Based on a basket of one subscription, 185 local calls, 11 intermediate calls and 40 long-distance calls, ART calculates that the monthly bill for a typical household has edged down from FFr184.35 in 1995 to FFr179.37 in 1997. For businesses, based on one subscription, 234 local calls, 44 intermediate calls and 92 long-distance calls, the savings have been more substantial, with bills falling from FFr348.37 in 1995 to FFr297.03 last year.

Olivier Porte, telecoms representative for the Club Informatique des Grandes Entreprises Françaises, a body representing the private-sector companies with the 100 biggest information technology budgets in France, confirms that Cigref's members have benefited from substantial price reductions in recent years. "Since about the start of 1997, there have been tariff cuts of 40-50 per cent for international calls and national long-distance," he says.

Mr Porte also points out that the very biggest telephone users may benefit from additional discounts. "Published tariffs are more and more for small- and medium-sized users," he says. "Large users more and more get bespoke tariffs."

He says that another way in which liberalisation has helped big consumers is in reducing the length of contract terms. "Two years ago, to get the best price, you had to commit for three to five years," he says. "Now the standard is 12 months. That is a big shift."

Mr Zuber acknowledges that those who use their telephones very little may actually have been adversely affected by the changes in recent years in the run-up to full liberalisation. This is because they might not make enough calls to counter the increased subscription charges. But he points out that, by the same token, heavy household telephone users may have done as well as business users out of the changes. "An individual who phones a lot abroad has benefited as much as companies," he says.

Mr Zuber also points to a number of ways in which he feels the quality of service offered to clients is improving. The opening of France Telecom agencies on Saturdays was in this regard, he says, a point of progress. "They know there are competitive pressures. People are beginning to say 'If you don't respond quickly when I ask for something, I will go elsewhere.'"

Increasingly, this will not be an empty threat. Mr Porte says that while France Telecom is still "the main vendor" for virtually all the club's members, "the majority of our members already have two operators, or are about to have two operators". He confirms that, in his view, carriers are tending to become "more proactive", with customer care programmes becoming more and more important.

France Telecom is generally reckoned to have provided a good standard of service even before liberalisation started to give customers the option of taking their business elsewhere. "As a general rule, people were happy with the quality of service offered by France Telecom," says Marie-Madeleine Dollfus who handles consumer affairs for the Association Française des Utilisateurs du Téléphone et des Télécommunications, a body representing household and small business phone users.

Even so, telephone consumers appear to think there are ways the present situation could be further improved.

Ms Dollfus is less content with the level of service in the highly competitive mobile phone segment, where she says there are "big problems" with the length of subscriptions and billing among other issues.

"People rush into it and they don't always think carefully," she says. She suggests that people come with the impression the level of service will be as good in the obile sector as for fixed tephony. ART says it is aare of the discontent in th area and is organising a sinar on the subject in tl second half of this year.

idier Quillot, commercial ar marketing director of Fince Telecom Mobiles, sa: he does not accept that th standard of service is lor for mobile than for fix services. "I think we hav some very good performance criteria," he says.

Cnsumer organisations alsocomplain about the high costf calls made from fixed telejones to mobile terminals. Mr Porte describes the levelf tariffs as "indecent", sayir that when customers call amobile phone from a fixed umber in Paris, "it is more xpensive than calling Los Ageles", even if the recipit of the call is in the next rm.

"Wehave been told by some four members that at their hadquarters, the cost of fixd-to-mobile has reachedthe same level as internaional calls," he says.

Eric luerquin, deputy treasureof the Union Fédérale des consommateurs Que Choisir, nother consumer organisaon, says "fixed telephonesubscribers are to some exht financing the developmnt of the mobile network."

Operatoi justify the level of fixed-tomobile charges partly by pnting out that it is technicty much more complicate to route calls quickly to anobile terminal in an unprdctable location than to anoer fixed phone. They also sa fixed-to-mobile charges in :ance are relatively low bEuropean standards.

Mr Porte lso comments on the "drnatic lack of standardisaon in billing formats". As consequence, "when you ant to re-bill between costentres in your company, it n at first be a nightmare".

Cigref members claim the cost of calling a mobile phone from a fixed number in Paris is now the same level as international calls

PROFILE France Telecom Mobiles

Penetration rate soars to 11.5%

The French took their own sweet time to fall for the mobile phone, in contrast to some of their west European neighbours who appeared to take to the new gadget much more readily.

Two years ago, subscribers to mobile telephone services still made up less than 3 per cent of the French population, making the country the most underdeveloped of large European mobile telephone markets.

Today, that penetration rate has soared to 11.5 per cent, based on figures to March 31, 1998, and the "portable", as elsewhere, has become an indispensable feature of everyday business life.

No wonder wireless services have become the driving factor behind revenue growth at France Telecom, the former monopoly operator that was partly privatised by Lionel Jospin's Socialist-led government last autumn. As Michel Bon, France Telecom's chairman, pointed out recently: "The French market is no longer behind in cellular phone penetration since more than one person in ten is now a subscriber".

France Telecom is still leader of the 6.7m-strong French mobile market, in spite of strong competition from Cegetel and, more recently, Bouygues. At the end of March, the company had 3.45m subscribers, the vast majority through its Itineris service. This compared with 2.59m subscribers for Cegetel and nearly 646,000 for Bouygues.

France Telecom Mobiles (FTM) encompasses all France Telecom group units active in mobile and wireless communications, including cellular phone services, paging and international ventures. In 1997, it had sales of FFr17.1bn, with about FFr5bn coming from outside France, against FFr11.2bn in 1996 and FFr6.5bn in 1995. This compared with total 1997 revenues for France Telecom of FFr156.7bn.

Marie-Christine Lambert, finance director, estimates that FTM now has about 5m customers for its services in France and around the world. It has clients in a dozen different countries, including Poland, Greece, Lebanon, Belgium, Slovakia, China, Romania and Denmark. And it claims to be the fourth-biggest GSM operator in Europe.

In France, FTM is aiming to maintain its market share at 50 per cent or more. Analysts at JP Morgan are expecting French cellular penetration to reach almost 30 per cent by the end of 2001. A 50 per cent share of such a market would give FTM nearly 9m French subscribers.

Didier Quillot, commercial and marketing director, says there are several reasons why the company has been able to retain leadership of its home market.

The quality of its network is one factor. Ms Lambert puts total capital expenditure on the Itineris network at FFr18bn, with about FFr4bn earmarked to be spent this year. The company claims coverage of 96 per cent of the French population. Since last June, this coverage has included Mont Blanc.

Effective advertising and distribution have also played a role. But perhaps the most critical factor underpinning its market leadership is the strength of its new product development.

One example of this is the Mobicarte pre-paid card, launched last year, which consists of a GSM smart card that gives users call credit and can be reloaded at any time.

Also last year, the company launched Ola, a concept designed to turn the mobile phone into more of a consumer, as opposed to a business, product. Ola subscribers receive a package including a mobile handset and a choice of four tariff options.

For business customers, FTM has Loft, a service giving a choice of between two and eight hours of communications a month and the opportunity of a loyalty discount for those prepared to sign up for 24 months.

It appears that such initiatives have helped underpin FTM's leadership in spite of tariffs which, according to JP Morgan, are "comparatively high". (French cellular tariffs in general are, however, said to be among the cheapest in Europe, especially for frequent users.)

Based on current projections, France Telecom expects Itineris to break even in 1998.

David Owen

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DOES YOUR COMPANY HAVE AN IDEA WE CAN TAKE SOMEPLACE?

Along the windblown prairies of Penelope, Texas, GTE is simply...the phone company. But far away in China, we're a paging service for 25 cities. In Redmond, Washington, we're a sophisticated LAN system for Microsoft. In Washington, D.C., we're managers of a private data network for the U.S. Treasury.

We're still a provider of local phone service, with more than 21 million lines in the U.S. But we also go far beyond that: we're moving ideas in a lot of different ways.

GTE hosts some of the largest websites in the world, supporting more than 25 million page views a day. We're developing a 17,000-mile, coast-to-coast data network. It will expand the capacity of the GTE network to 100 times the size of today's Internet.

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We're people who move ideas via local phone lines, long distance, wireless, video, Internet and directories. That's what we do. That's who we are. Does your company have an idea we can take someplace?

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EASTERN EUROPE • By John Williamson

$120bn of investments needed

Billions of dollars have been attracted into the region by partially privatising national telcos through the sale of a strategic stakes to foreign investors

According to a new report from Price Waterhouse, investments totalling a cool $120bn are required to bring national fixed telephone line penetration levels in 12 countries in Central and Eastern Europe (CEE) up to parity with their counterparts in the West.

Few of the governments or telcos in the countries concerned have anything like the cash surpluses or foreign reserves needed for this exercise. Nevertheless, many CEE governments accept that modernisation and expansion of their telecoms infrastructures will definitely need to continue if fledgling market economies are to take deeper roots and prosper in the new century.

There are, of course, alternatives to injections of government cash and internal telco re-investment for priming under-developed telecoms pumps. One is for the telco to acquire commercial debt. Another is for governments to licence new wireline, mobile and cable television operators whose networks can take up some of the extant PSTN (Public Switched Telephone Network) slack.

A third, which has already attracted billions of dollars into the region, is to partially privatise the national telco through the sale of a strategic stake to a foreign investor. This is often followed by an initial public offering, and sometimes there is a requirement for the foreign partner to dilute its ownership over time, to enable more local investors and company employees to participate in the shareholding party.

To date, some sizeable funds have been generated by the partial privatisation of CEE telcos. The sale of a 67.2 per cent stake in Hungarian telco Matav to the MagyarCom consortium of Deutsche Telekom and Ameritech netted more than $1.7bn in two tranches. In similar vein, the TelSource pairing of KPN and Swisscom paid $1.45bn for a 27 per cent stake in Czech operator STP Telecom in 1995.

Smaller telcos in smaller countries have attracted more modest foreign participation. For example, a consortium led by Greek telco OTE recently closed a $142.5m deal for 90 per cent of Armenian telco ArmenTel.

Some big telco sell-offs remain in the pipeline. At least six operator groups are understood to be interested in paying between $4bn and $6bn for a 30-35 per cent stake in Romania's RomTelecom. The Polish authorities are progressing a multimillion-dollar IPO for Telekomunikacja Polska before the end of the year.

A further 25 per cent of Russia's A.O. Svyazinvest, the holding company which groups about 85 local regional telephone companies under its stewardship, is supposed to come under the hammer at about the same time; the 1997 sale of 25 per cent of this organisation raised $1.88bn.

Further off, Ukrtelecom which has umbrella responsibility for Ukraine's regional telecoms operators, provides service in Crimea, Kiev and Sevastopol, and has an interest in the country's long-distance operator, could be privatised to the tune of $4.5bn before the end of the decade.

There is some uncertainty about what such privatisations will be worth in the end, due in part to different readings of how much of the equity of these companies will actually come to market. This uncertainty is compounded by the plans and market muscle of competitive operators in those locations where competition has been implemented or is scheduled. And these competitors themselves are not averse to selling strategic stakes to overseas investors.

In the Czech Republic, for example, the energy utility telecoms organisation Aliatel recently took Germany's RWE Telliance as a 40 per cent partner while the broadcast and mobile concern Ceske Radiokomunikace has Tele Danmark as a 20 per cent co-owner.

Importing overseas finance and expertise seems to have paid off for telcos such as Matav. Over the three years following the establishment of the MagyarCom consortium, Matav increased the size of its network from 1.3m lines to 2.1m lines. And in the operators surveyed by Price Waterhouse, Matav now has the highest level of revenue per line at $444.

However, the privatisation path does not always run as smoothly as the foreign investors might wish.

A case in point is the rather convoluted saga of the sell-off of a stake in Kazakhstan's telco Kazakhtelecom. In early 1996, Deutsche Telekom reportedly bought a 49 per cent stake in the company for $540m, the deal apparently being that the German operator would exert control over Kazakhtelecom for a minimum of six years. However, Telekom subsequently withdrew from the deal because of a lack of official commitment to necessary tariff increases, and uncertainty about the precise terms and conditions of its operating licence.

Tariff re-balancing is a particularly awkward nettle to grasp in CEE. "It is an illustration of the extent to which tariffs are unbalanced in Central and Eastern Europe that a long-haul international call costs approximately 93 times the cost of a local call of the same duration, on average, among the operators we have considered," notes Price Waterhouse. "In Russia this ratio increases to 432 times and in Macedonia to 450 times."

Last year, Korean giant Daewoo stepped in to fill the Kazakhtelecom breach, buying a 40 per cent stake for $1.37bn and pledging to spend a further $1bn to expand Kazakhstan's network. The national target is to have 3.3m telephone lines in operation by the end of the decade, up from about 2.3m today.

Unfortunately, the recent financial crisis in parts of south-east Asia now seems to have scuppered Daewoo's Kazakhtelecom's ambitions, with recent reports suggesting that the Korean manufacturer is now unloading its stockholding.

The Svyazinvest deal is another that has attracted controversy. The purchaser was a group led by Oneximbank and involving the international financier George Soros. Critics maintained, inter alia, that the price paid was too low, that the tendering period was too short, and that the investors had little in the way of hands-on telecoms experience.

In any event, there is no guarantee that privatisation proceeds will be channeled back to the telecoms sector. Another concern about the Svyazinvest deal was that only a very small percentage of the proceeds was initially returned for investment in selected regional operators.

Circumstances and priorities on both sides of the telco privatisation equation can and do change.

In Latvia, the Tilts consortium took a 49 per cent stake in Lattelekom, with a 1994 agreement giving partners Cable & Wireless, Telecom Finland and International Finance Corporation exclusive fixed voice and data rights until the year 2013. Today, the Latvian government wants to introduce competition earlier to enhance its bid for EU membership, while Tilts wants compensation for this and the introduction of more realistic tariffs.

"Investing in the telecommunication sector in these countries is therefore a complex process, requiring insight into the key issues driving the sector, and a detailed understanding of the benefits and risks associated with the diverse range of investment opportunities available," concludes Price Waterhouse.

The author is senior technology editor of Global Telephony Magazine

Privatisation in eastern Europe

	Type of Sale		Comments
Estonia	Strategic stake sold 1992	IPO of 51% in 1998	49% owned by Baltic Tele (Telia and Telecom Finland)
Hungary	Strategic stake sold 1993		Magyarcom (Ameritech and Deutsche Telekom) own 67.2%
Russia-Rostelcom		IPO of 49% in 1993	49% held by foreign/domestic investors 51% of Rostelcom still Government owned
Czech Republic	Strategic stake sold 1995	IPO by 1999	27% owned by KPN and Swisscom consortium Sale of remaining stake expected by 1999
Latvia	Strategic stake sold 1995	IPO when company formed into joint stock company	TILTS (Telecom Finland and Cable & Wireless to be sold when company reorganised into joint stock company
Russia - Svyazinvest	Strategic stake sold 1997	IPO of 24% in 2Q/3Q 1998	Mustcom Ltd own 25%, a further 24% of Svyazinvest to sell in 2Q/3Q 1998

Source: Price Waterhouse

ITALY • By James Blitz

Enormous potential for mobiles growth

Italy's extraordinary obsession with mobile phone services shows no sign of levelling off. Competition for a third operating licence is intense

Mobile telephony is one of the fastest growing businesses in Europe today. But in no country is it showing quite the potential for revenues, profits and growth as Italy.

In the eight years that the two existing providers of mobile phone services – Telecom Italia and Omnitel – have been in operation, the Italian obsession with the product has been nothing short of phenomenal in the view of many industry analysts.

Thus far, the two companies are between them thought to have achieved "penetration" – the ratio of subscribers to inhabitants – of 21 per cent. Telecom Italia alone has some 10m subscribers, turning it into the largest individual mobile operator in Europe. Only in Scandinavia, where penetration is now at about 35 per cent – has the market been anything like as strong.

But anybody who thinks that growth in the Italian market is beginning to level off should think again. Both TIM and Omnitel were last year reporting significant growth in subscriber numbers, up 62.8 per cent and 245 per cent respectively compared to 1996. Revenues for TIM alone in 1997 were L9,456bn, up nearly 30 per cent on the previous year.

Meanwhile, the Italian government's competition for the third mobile licence – due to be resolved in the next few weeks – has attracted fierce competition from three consortia, involving Enel, the Italian electricity giant, Eni, the oil and gas conglomerate, and Autostrade, the soon-to-be-privatised motorway network.

"I see no reason why penetration of the Italian market should not reach more than 50 per cent in the next ten years," says Tomaso Pompei, chief executive of Wind, the Enel-led consortium. "There is no market in Europe with quite the potential this one has."

What are the reasons for this? Mr Pompei puts it down, in part, to the way mobile telephony in Italy has developed over the past eight years.

In the US and Germany, he says, the providers of mobile services started by offering services fixed to cars, while Italy missed out this stage and went straight into hand-held cellular phones. "Over the long term, it has been far easier to build a market in a mobile phone service that wasn't fixed to any form of transport."

There are other arguments, too. "Quite simply, the Italians love to talk," is the view of one analyst, who points out that this claim is based on figures showing that, on average, they clock up more minutes using phones of any kind than many other nationalities.

Then there are the other anecdotal factors. There is the status symbol that the mobile phone seems to enjoy in the streets of Europe's Club Med countries.

In Italy, the weakness of the public administration means that deadlines and appointments are often missed and the mobile phone puts things right. With about one-third of the southern workforce employed in the black economy, the flexibility of the mobile phone is also deemed attractive.

Some people continue to take a more sober view of the growth potential of this market. James Ross, a telecoms analyst at ABN-Amro, argues that Telecom Italia Mobile has already won over the wealthiest of the available customers to its systems. "The third licence will be a good business but the level of market share achieved by TIM is so large that it will be very hard to beat down."

And there is not much sign that Italy's mobile market is, as yet, reducing the number of people relying on fixed telephony. The fixed telephone system has achieved about 45 per cent penetration but Mr Ross believes it still has a considerable way to go.

"In some countries, the penetration of fixed telephony can reach around 65-70 per cent," he says.

The consortiums bidding for the third licence put their faith in other arguments, however. A senior figure connected with the Autostrade bid, for example, notes that there is far greater sophistication among the Italian public about mobile phone pricing and that this will expose the existing operators to competition.

"A staggering 40 per cent of new mobile phone users do not buy a single SIM [subscriber information module] card from Telecom Italia or Omnitel," she said. "Instead, they go and spend about twenty dollars on a disposable pre-paid card. This can be bought from any of the mobile operators. There is, therefore, extraordinary flexibility in this market."

Moreover, market research by one of the consortiums suggests that the Italian public's interest in fixed telephony is limited. "The responses we have been getting in focus groups show that Italians can't wait for mobile phone prices to come down far enough so they can get rid of their fixed phone," said one figure.

Given all this, it is little wonder that the competition for the third mobile licence has been so fierce. Or that some companies are already contemplating bidding for the fourth.

MERGERS AND ACQUISITIONS • By George Black

On the increase globally

As the industry gradually evolves, opportunities for deals are emerging all round the world

Whieldon foresees takeovers as Internet telephony emerges

Mergers, acquisitions and alliances in the telecommunications industry are increasing worldwide as companies jockey for position in an ever-accelerating business.

Deregulation of national markets and the development of new technology are opening up many new opportunities for acquisitions and partnerships of various kinds.

"We have talked to just about everybody," says Peter Eustace, group head of media relations for UK-based telecoms operator Cable & Wireless. These talks are mainly about alliances in which minority shareholdings could be exchanged, he says, but all possibilities are being looked at in a highly volatile market.

Some deals may be driven by the egos and ambitions of chief executives, but most are part of the process of natural selection in the evolution of the industry.

Bernie Ebbers, head of WorldCom, received a $17m cash bonus for arranging last year's takeover of MCI Communications and other WorldCom senior executives also received substantial rewards. But industry analysts saw the deal as justified by market trends rather than inspired by greed or vanity.

In general it is probably the fittest who survive and customers ultimately benefit. But now there are doubts about whether more mergers will mean more competition and more choice or re-emerging monopoly power.

US politicians and officials reacted with concern when SBC Communications announced a plan to merge with Ameritech, creating the country's largest phone company by market capitalisation and second-largest by revenue and controlling a third of the local call market. Following SBC's acquisition of Pacific Telesis and Bell Atlantic's purchase of Nynex, this would reduce the number of regional phone companies from seven in 1984 to four.

At the same time, the European Commission is said to be worried that the WorldCom-MCI combination could have too much control over transmission across the Internet.

But assuming that the authorities do not decide to volte-face and start to re-regulate, several areas of the market look ripe for further consolidation. Most obviously, Internet-related companies face a wave of takeovers.

The UK has more than 200 Internet service providers (ISPs), most of them small and many unprofitable. It is doubtful, indeed, whether Internet access can in the long term constitute a profitable business in itself; there are signs that service providers may move on to an advertising-funded basis and seek profits through other services such as home shopping.

But the Internet is such an important market and such a challenge to the leading telecoms operators that they cannot afford to stay out of it. Scottish Telecom recently plunged in and bought Demon, one of the UK's leading ISPs.

Peter Rowell, managing director of mergers specialist Regent Associates, thinks that within five years all the middle-tier ISPs will have come under the control of the telecoms operators.

"There is no place for a medium-sized general ISP," he says. "There will be a few large ones and many niche value-added services, but those in between will all disappear."

Telecoms operators are also forging links with Internet search engine companies – MCI with Yahoo, for example.

Another area in which more mergers may be expected is equipment manufacturing. Telecoms equipment suppliers such as Nokia and Alcatel are increasingly coming to compete with data network equipment manufacturers such as Cisco and 3Com.

Charlie Whieldon, vice-president of telecoms systems supplier Vicorp, foresees possible takeovers as these companies seek to establish themselves in the emerging Internet telephony market.

In the wake of European deregulation, a shakeout of operators looks likely. Fixed and mobile networks are likely to converge through alliances and partnerships as well as takeovers.

In the UK there are more than 100 licensed telecoms operators, in a market which can probably only support a small fraction of that number in the long term. Many of the smaller ones are barely profitable but have built up considerable customer bases. They will probably be taken over by the larger ones, although some may be able to hold on to viable niches.

The prospects for international mergers are hindered by matters of politics.

Mr Rowell argues: "There is no logic to having your own national phone service, any more than to having your own national airline." Governments which attempt to protect their national operators from market forces will penalise their people who will suffer in terms of service, he says.

Alliances are likely to be at least as popular on the international front as mergers. For example, Cable & Wireless recently announced the formation of a global partnership with Telecom Italia, beginning with an exchange of assets.

Brian Marshall, divisional director for consultancy CAP Gemini, notes that European companies are at a disadvantage to their US competitors. "It is much easier for US firms to get into Europe than for European ones to enter the US," he says. Complex regulation governing foreign investment in the US was among the reasons why BT's bid for MCI failed, in his view.

The consequence of this anomaly could be a much increased US presence on the European telecoms scene, without a corresponding European investment in the US.

Finally, there are the cable television networks. The UK market has quickly consolidated from more than 40 cable operators to fewer than 10. Last year it saw a big restructuring involving the merger of Cable & Wireless's long-distance operator Mercury Communications with three cable TV companies, Bell Cablemedia, Nynex and Videotron.

Mr Marshall argues that further mergers of this type are necessary to gain economies of scale. In other countries, too, more of this sort of concentration could be expected if deregulation permits.

FRAUD AND THEFT • By Peter Purton

Down but still not out

There is no single solution to the problem. But the technologies being used to combat fraud are getting better all the time

Hart believes voice verification will be in use within two years

The bad old days of analogue mobile phone cloning – where stolen or disconnected phones are modified to appear legitimate – may be coming to an end as more and more mobile phone users "go digital". But fraud and theft are still important issues for the world's telecommunications network operators.

Worldwide, it has been estimated, some $13bn a year is lost to telecoms fraudsters. In the UK and in the rest of Europe, most operators of telecoms networks and services will admit to losing 2-3 per cent of their revenues due to a combination of fraud and bad debt.

"Fraud is a by-product of competition," notes Chris Thomas, a consultant with Chorleywood Consulting, based in Buckinghamshire, England. "In a situation where there are two or three competitors and all are in a rush to get customers there is a temptation to take on bad customers."

The first step in tackling fraud, says Mr Thomas, is to set up good procedures. Pre-sale credit vetting and scoring are a must, he says, as is verification of the applicant's identity, preferably from more than one source (for example, a utility bill and a driving licence). Another good move, says Mr Thomas, is to immediately send out a welcome letter to the address given by a new customer.

"When you're dealing with fraud, you're dealing with human behaviour," notes Michelle Wheeler, product marketing manager at Lightbridge, based in Waltham, Massachusetts, where she is responsible for Fraudbuster, an automated fraud detection system.

Fraudbuster works by creating an idealised model of a subscriber's calling behaviour which it then compares to real calling patterns. A human analyst is alerted when a set of thresholds and scores set up by the network operator are exceeded.

Good indicators of fraud are new subscribers who change contact information soon after joining up, a rapidly escalating phone bill or calls to suspect numbers or countries, says Ms Wheeler.

How accurate the system is depends to a large degree on how much of a risk the network operator is willing to take on its customers when setting its rules and thresholds. If it is too soft it will lose more to fraudsters. If it is too strict, it will offend legitimate customers.

One way to improve accuracy without annoying good customers could be to improve the quality of the information available to network operators. In the US, for example, Lightbridge has built a database of known fraudsters – a so-called Negative File Database (NFD) – which it makes available to its network operator customers.

The NFD lists payment histories of known fraudsters and their "significant seven" details: name, address, social security number, phone numbers at home and in the office, driving licence number and date of birth. Lightbridge is currently assessing the legal and data protection requirements in different European countries with a view to setting up a European NFD.

While making it more difficult for serial fraudsters, an NFD does not address the issue of improving detection rates for first-time fraudsters. One solution to this problem may be the application of neural networks technology, according to Bill Seymour, general manager of fraud solutions, a subsidiary of Canadian telecoms equipment maker Nortel.

A neural network is essentially a learning computer. In its application to a fraud detection system, a neural network would ensure that a personal profile is a dynamic thing, updated minute by minute.

"If you are using rules and thresholds you can only discover what you know," says Mr Seymour. "A neural network can detect unknown fraud." He claims that neural network-based fraud detection systems such as his company's Supersleuth product are 10 times more productive because analysts are not being slowed down by false alerts.

"With traditional systems, 19 out of 20 alerts are fake," says Mr Seymour. "We believe we get it right 50 per cent of the time."

With so much at stake, other high tech counter fraud innovations can be expected to emerge soon.

One interesting avenue, at least one that can be applied to cases where the fraudster is pretending to be somebody else, could be that of voice verification.

Like retina scanning or finger print recognition techniques currently being evaluated for use with automatic telling machines (ATMs), voice verification is a biometric technique. First, a measurement has to be taken of the original. This is then analysed and stored as a computerised model for later comparison with real life samples.

Jonathan Hart, sales and marketing director of Cambridge-based Vocalis, a leader in this field, believes voice verification will be "as accurate as finger printing taken in the field." He estimates that we will see voice verification in use within two years.

There is no single solution to the fraud problem, but the technologies being used to combat fraud are getting better all the time. Compared to the bad old days of analogue mobile telecoms, when losses of up to 30 per cent of revenues were reported, digital is already a big improvement.

A reason for this, according to Hubert Tardieu, managing director of Sema Group Telecoms, based in Paris and London, is that the designers of telecoms equipment had the benefit of the experience with analogue when they put together the specifications for digital. So, for example, digital networks examine the validity of two identification codes every time a call is made. One code allows them to verify the validity of the handset, the other that of the user. And so far – at least the industry claims – no fraudster has cracked the structure of either code.

The problem in the US, where analogue technology continues to dominate, is still significant, says Mr Tardieu. "The United States will end up going digital," he predicts. "And it will be primarily because of fraud, not quality of sound or any of the other benefits of digital technology."

THE MILLENNIUM BOMB • By Joia Shillingford

Coping with the worst scenario

Widespread efforts throughout the telecoms industry should ensure that the beginning of the year 2000 is as painless as possible

"The worst case scenario for the telecoms industry is that on January 1 in the year 2000, there is no dialling tone," says Patricia Henry, year 2000 supremo at Cable and Wireless.

But Ms Henry and her counterparts in other telecoms companies, and in telecoms equipment suppliers, are working hard to make sure this does not happen.

"In an industry which is getting ever more competitive, it is great to see everyone working together," says Colin McEwen, year 2000 co-ordinator for Nortel's telecoms products.

"In the UK, there is the The Inter Company Year 2000 for Network Equipment Forum, a group of telecoms carriers working together to iron out problems; internationally, there is the International Telecommunications Union (ITU), which will help developing countries gear up for 2000," adds Mr McEwen, who is in the ITU's year 2000 taskforce.

"Everyone realises that it is not enough just to get their own systems in order: they will lose money if customers cannot connect to far-flung destinations, or if calls are switched via the wrong routes on the wrong days," says Mr McEwen.

All manner of systems and networks could be affected. Mr McEwen says: "Every business needs to check whether its PABX (switchboard) is year 2000 compliant. A modern PABX should still provide a dialling tone, but additional features such as voice mail and complex call-centre features could malfunction."

For example, the voice mail system might give the wrong day of the week. There are also likely to be problems with administrative tools for doing moves and changes (such as changing someone's extension) on the PABX.

Date-dependent functions on the switchboard could also go haywire. If a switch is programmed to transfer calls to security at the weekends and to reception during the week, things will start to go wrong, especially after February 29.

Calls will start to go to security on some days when they should go to reception and vice versa.

"Some telephone handsets, especially those which perform complex tasks, could also be affected by the millennium bug," says Ms Henry. But in a well-designed switch, the handsets derive their intelligence from the switchboard's software, says Mr McEwen. "So, if you install software to fix its year 2000 problems that will fix the handsets as well."

On a larger scale, the telecoms switches that route calls around national and international networks could have problems in the year 2000. This means that telecoms carriers are having to work very closely with suppliers to make sure their equipment is compliant. The year 2000 problem could also prevent them from issuing new lines to companies remotely.

Potential problems for telcos are compounded by the fact that switch suppliers have tended to write their own proprietary software. This means that a telecoms operator (telco) may well have lots of equipment to check and lots of suppliers to liaise with.

If such problems are not sorted out, calls could be routed via the wrong routes on the wrong days. This could cause congestion on routes where there usually is none. And it could cause telcos to incur extra costs because they route calls partly according to price.

Many telcos are also using software – for example, for billing or value-added services – written in-house that is old, complex and inefficiently written with many lines of code. Worse still, the staff involved in the original development work may well have left the company.

Ms Henry says: "It is highly unlikely that there will be no dial tone on January 1 2000, but work needs to be done to avoid problems with value-added services."

Telecoms equipment which includes embedded chips containing date-dependent software could also be jinxed by the millennium bomb. The good news is that not all chips are date dependent. But products that can have embedded chips include modems, phones, telecoms switches, PABXs and routers.

There is every sign that telcos are aware of the dangers. Cable and Wireless has a detailed action plan for fixing year 2000 problems and making sure that its suppliers and operating companies do too.

British Telecom has played a key role in getting the UK and international telecoms industry to co-operate, providing the Inter Operators Forum's secretariat and also playing a leading role in the ITU year 2000 taskforce. BT and Cable and Wireless Communications are also working together on a number of national and international year 2000 initiatives.

US company GTE says it has achieved ITAA*2000 certification from the Information Technology Association of America for its year 2000 plans and cable companies such as Telewest and NTL say they are well prepared.

Equipment suppliers have also been busy trying to raise awareness among their customers of what steps need to be taken. Nortel has been working closely with suppliers and is quite forthcoming in the level of technical information it has sent out to customers. It has printed 5,000 booklets (and is printing more) showing to what extent its equipment is compliant and what fixes are available.

The cost of fixing year 2000 problems is not crippling. BT is spending about £300m and Nortel estimates that it will spend $88m this year in addition to the $32m it spent last year, when its turnover was $5.7bn.

For leading companies, the cost of fixing year 2000 problems should be modest too, according to Mr McEwen. He says: "Companies using Nortel's Meridian 1 will still get a dial tone. Those using extra features will need to install a software fix, costing a few hundred to a few thousand depending on how complex their switch is."

"Yet," he warns, "awareness of potential telecoms problems within companies is not as high as it should be. By now companies should have a clear plan for ensuring their telecoms will work, a date by which any problems will be fixed and a named person responsible for doing the work."

Not every telco or telecoms user will be dramatically affected by they year 2000 problem. "Telcos in the developing world with very old switchboards that don't include software will avoid the year 2000 problem," says Mr McEwen. "It's the medium-old systems you have to watch out for."

One obstacle that may prevent an entirely trouble-free start to 2000 for telcos is that it is hard for them to duplicate the scale of live telecoms use. That is, it is possible to check fixes and interconnections at, say, quiet periods such as weekends. Or to get a test group to simulate real use. But until one minute past midnight when people all over the world are phoning their nearest and dearest to wish them a happy new century, networks will not have been tested at full capacity. Let's hope they work.

BT's OnePhone service, due to launch soon, merges a GSM mobile handset with a domestic phone

FIXED MOBILE CONVERGENCE • By Steve Costello

Hot topic with benefits for all

Operators believe the integration of services then networks could offer the best of both worlds

Fixed mobile convergence is one of the buzz topics in telecoms today, with operators worldwide looking to merge aspects of fixed and mobile telephony.

The market for integrated fixed and mobile services is sizeable – according to Gemini Consulting, the market for converged services in the US and western Europe will be worth between $40bn and $50bn by the year 2000.

The customer also stands to benefit from fixed mobile services. According to Valerie Spreit, principal consultant at Gemini, there are three key benefits: convenience, ease of use and mobility.

There is still some confusion concerning the term "fixed mobile convergence." Basically there are two elements: the integration of networks, and the integration of services. Many believe that, at the end of the day, the convergence of services is most important, with converged networks following after.

Claude Dechaux, vice-president for strategy at Alcatel's mobile communications division, agrees that the integration of services will happen before the integration of networks. He says: "The first step will see the convergence of service. There will be nothing different on the network side, although we will probably see a single numbering scheme and single voice mailbox. It will basically see the bridging of different networks with a single service platform."

In many cases, fixed and mobile services will be offered by a single operator. This approach has many clear benefits. For example, the need for separate fixed and mobile marketing and sales teams is removed, because one centralised department can deal with both areas. And revenues are likely to be boosted as one provider gains income from two services, rather than the income being split between several operators.

There is also a legislatory angle to this issue. In the UK, for example, BT cannot increase its 60 per cent stake in cellular operator Cellnet, therefore keeping the operations separate. In Germany, however, part-BT owned Viag has both fixed and mobile interests that can be run together.

David Ainsworth, director of product marketing for intelligent network solutions at Nortel (Northern Telecom), believes new entrants to markets stand to benefit over existing operators.

"The start-ups have an advantage as they can integrate fixed and mobile at the start-up stage – others have to integrate existing equipment, and the older it is the more difficult it is. And they also need only one sales team and marketing team, to deal with the full range of services, which also gives significant savings and cuts costs."

In the UK, BT has recently announced a fixed mobile solution which will integrate a domestic telephone and GSM mobile handset in one package. Following tests last year, BT customers will soon be able sign up to the OnePhone service.

While in the home, an Ericsson-manufactured handset acts like any cordless terminal, connecting to the public network via a base station plugged in to a normal telephone socket. However, outside a 300-metre range, the handset acts as a GSM handset using the normal cellular network.

This is a clear example of service integration: the customer benefits from using a single handset with a single number that can be used in the home or when mobile. The networks, however, remain separate, and at least for the immediate future the customer will receive separate bills for the home and mobile segments.

Eric Guilloteau, general manager for BT Mobility Solutions, was clear about the role of OnePhone in the company's portfolio. He said: "The offering shows a commitment to the fixed mobile marketplace. OnePhone gives the best of both worlds, with the quality of digital cordless and the portability of GSM – mixed with the convenience of one number."

Fixed and mobile services will also be provided by several companies in a joint venture. There are benefits to this approach: when a fixed operator joins together with a mobile operator, neither has to spend money on infrastructure and regulatory hurdles can also be overcome. However, there are also drawbacks: both companies will need to retain distinct sales, marketing and technical staff to deal with other, non-converged, offerings.

An example of this approach is available in the UK, where fixed-line operator Energis and cellular operator Vodafone have joined to offer fixed and mobile services. In this case, fixed mobile services are distributed through Vodafone's existing providers, initially to its business customers. Customers still need to pay a rental charge to BT, although all call charges come from Vodafone via a single bill.

Darren Dumelow, relationship manager for market development at Energis, believes a joint venture offering has clear advantages over the single-provider alternative. He says: "Through a tie-up, customers can benefit from the services of two advanced communications providers, rather than relying on one."

And Ben Timmons, director of strategy and marketing for Cable and Wireless Global Mobile, also believes joint ventures have a role in the market: "Ownership is not the most important thing – which ever way, the cost disadvantage of a joint venture does not outweigh the benefit. In an ideal world you would do things differently, but this is not an ideal world. Fixed-mobile integration is primarily about what you can offer customers," he said.

The joint venture approach has not received full support from all parties. Many believe that the cost savings available to single operator ventures, through single sales, marketing and administrative operations, are lost as both parties need to retain separate staff.

Timo Luukka, marketing manager for fixed mobile integration at Nokia Telecommunications, supports both these approaches. "We have identified different strategies for fixed and mobile convergence, and we see them all as viable," he confirmed.

The author is editor of the FT Media and Telecoms' Mobile Futures Newsletter

CASE STUDY Cable and Wireless millennium programme

Recipes for tackling year 2000

Preparing 130 companies for the year 2000 sounds a mammoth task until you talk to Patricia Henry, director of Cable and Wireless's millennium programme. Mrs Henry has broken down the task into simple steps and put them all in a "cookbook".

She says there are different recipes for different circumstances. The idea behind them is that it would be a waste of resources for all C&W companies to come up with their own recipes for fixing the millennium problem, where software cannot recognise the year 2000.

Instead, C&W in the UK has worked out best practice guidelines which all the companies can follow. Its strategy is centralised but the task of testing for year 2000 problems and fixing them has been devolved to a senior line manager and a technical manager in each of its companies.

The cookbook – actually called *Project Initiation Document* (PID for short) – lists not just the recipes, but who in C&W is responsible for cooking them. The managers responsible communicate regularly via monthly telephone conferences and regular workshops.

They are also encouraged to pool information via a web site on the Internet that only C&W staff can access. This includes details of which telecoms equipment is year 2000 compliant and what fixes are available for hardware or software that is not compliant.

All sorts of telecoms equipment could be affected, from switchboards to modems, telecoms switches to telephone handsets, and payphones. This is because a lot of telecoms equipment contains embedded chips and some of these have a two-digit date format that will not recognise "00" as the year 2000.

Telecoms software, some of it proprietary and written years ago, could also be affected. Software is critical to telecoms networks helping to route calls between different countries and provide value-added services such as calling line identity.

However, Cable and Wireless estimates that the total cost of fixing the year 2000 problem in its companies around the world will be between £150m and £200m. This is less than some other UK organisations are spending. For example, Robin Guenier of Taskforce 2000 estimates that the UK's top four clearing banks will together spend about £1bn defusing the "millennium bomb".

One factor that has lowered the cost for C&W, says Mrs Henry, is that some equipment was due for replacement anyway. Another is the lack of duplication of effort around its sites.

In many cases where software is not compliant, Cable and Wireless is opting for a "windowing" solution. There are of course, different recipes for different types of windowing in the "cookbook". One sort of windowing involves telling the software that everything from the year 00 to 49 is considered to be in the 2000 century and everything in the range 50 to 99 is considered to be in the 1900 century.

Patricia Henry: US Marines logistics expert turned C&W troubleshooter

Adopting windowing basically buys a company time by extending the life of software or equipment until it is due for replacement anyway. Windowing typically extends the life of software by 10-49 years.

Cable and Wireless companies can make their own choice from the windowing and other solutions presented in the cookbook. "It's a question of picking the recipe you like, and seasoning to your own taste," she says.

But what happens to Cable and Wireless sites so small that they do not have year 2000 experts on site? Mrs Henry, an American and former logistics expert in the US Marines, has thought of that. She has set up "parachute" teams, consisting of three technical experts (one team leader, one network specialist and one applications specialist) that drop in for one to three weeks, fix the problems, then fly on.

"It's a hard job flying from one little Caribbean island to another, but someone's got to do it," says Mrs Henry.

C&W is also working closely with suppliers and customers to ensure that their equipment is year 2000 compliant. For example, it sends suppliers detailed questionnaires.

The company works closely with other telecoms operators (telcos) too. In April, Mrs Henry attended the International Telecommunications Union (ITU) meeting in Johannesburg which focused on the year 2000.

She says the ITU is encouraging larger telcos to work with smaller ones which have limited resources, especially those in developing countries. C&W, for example, will work with BT to provide year-2000 assistance to some of the smaller telcos in the Commonwealth.

Mrs Henry is also responsible for ensuring that PCs and office facilities such as lifts, air-conditioning and security access systems, work at C&W in the year 2000. "Many people haven't even started thinking about how their office premises will be affected," she says.

Joia Shillingford

NEW OPERATORS • By Michael Dempsey

EU regulations create niches for latest competitors

New entrants to the sector are trying to exploit the fresh regulatory regime with relatively small workforces and digital switching technology

Guests at European hotels in the Hyatt and Hilton chains are unwitting supporters of the latest competitors in the telecoms market. Both of these prestigious hotel brands have signed up with Esprit for long-distance calls and billing services.

Esprit, a $320m 500-strong UK venture, has been in business since 1992. While Esprit has invested in infrastructure development, it still relies on capacity from other operations to deliver the finished product to its business customers.

"Our proposition is simple: we're a phone company," says Glenn Manoff, Esprit communications director. Esprit is building up a European network, but to remain cost-effective it exploits unorthodox carriers.

It has just launched a link between the UK and France using fibre-optic lines running through the Channel tunnel.

Rail link operator Eurotunnel had the spare capacity on its fibre for customers such as Esprit. This is a resource referred to in telecoms circles as "dark fibre". Although it sounds sinister, dark fibre is merely unused fibre capacity. Fortunately for Esprit and a host of similar players there appears to be a lot of dark fibre around. The Channel tunnel link is providing Esprit with the option to carry 4m simultaneous conversations.

Railway operators are a prime source of fibre, because plans to diversify into telecoms were laid earlier in the decade. The predicted demand for this capacity is now emerging.

Hermes Europe Railtel is a company that owes part of its name to an ambitious plan to build a telecoms network across the existing infrastructure of 11 European railways. Brussels-based corporate director Gerard Caccappolo admits that the original scheme did not work out.

But the US-owned company is now signing up customers for a European fibre network that should cover eastern Europe by the end of 1999. Hermes is spending about $700m to offer a transmission service to any other telecoms body that wants to sell services off a brand-new infrastructure. One of its customers is Esprit.

Hermes typifies the outfits that are trying to exploit the new regulatory regime. It has a low headcount, just 170 staff, and Caccappolo does not see that rising above 300. The newly liberalised European Union telecoms framework, with voice infrastructure projects free to all comers from January this year, is the prime mover for Hermes.

The technology of digital switching means it can take projects from the drawing board to reality in very little time. One network centre supports the whole operation.

Digital switches, computers dedicated to managing voice and data signals, are at the heart of every new operation. "We can be very flexible," says Mr Caccappolo, "and there are a whole new set of carriers emerging; they all need to have bandwidth."

This demand for more capacity has turned into a period of rapid growth for the digital switch suppliers. Swedish telecoms giant Ericsson is capitalising on the appetite for its sophisticated switching equipment.

John Robbins, UK-based managing director for new public networks at Ericsson, reckons this sector is worth anywhere between £20m and £120m a year to his company. "In Europe, we are selling 15 to 20 large digital switches a year to these new operations."

While a large switch can cost £1m, the price tag rises as capacity grows, with £6m a realistic price for the very large sites.

Ericsson is at the heart of a £2m investment by Telecom Italia-owned Tele Media International. It claims nearly 1,000 customers for its newly constructed virtual private network centred on an operations hub in Rome that went live in just six months from TMI's initial planning decision.

Ericsson supplied the hardware that runs this centre, and its winning bid was a reflection of the pace of change in the world of new networks.

"The most critical factor in selecting the winning supplier was the ability to deliver the service inside six months," says Giuseppe Spinelli, TMI technical director. TMI's customer base is divided between multinational companies such as Fiat and telephone resellers.

Technology suppliers sometimes contribute more than equipment. United Telecom Aktiengesellschaft is Austria's first privately-owned telecom operator, launched in 1995 by nine regional power companies. Although Vienna is home to UTA's headquarters, its operations centre is run by Ericsson in Stockholm.

Alpha Telecom is typical of the resellers that have sprung up in Europe in the wake of deregulation. Using a network of agents to sell air time to consumers and relying heavily on advertising to establish a market presence, Alpha has built up a 45,000-strong customer base, primarily in the UK and Germany, since its inception in November 1996.

Stuart Eve, managing director, says Alpha spent about £500,000 on switching equipment from C3 Telephony. It uses network capacity from four or five carriers, switching suppliers to maintain its own pricing edge.

Mr Eve knows this agility is the key to survival for the smallest operators. "You can't increase your prices in this business, and your profit margins are always being squeezed. So costs are where you focus; we use a variety of carriers to maintain our edge."

Mr Eve believes Alpha and a host of other air time resellers such as First Telecom will survive, but only by maintaining a steep marketing budget.

Alpha spends £300,000 a year on advertising, has revenues of £10m and has just begun to break even on a monthly basis. Prestigious UK retailer Selfridges now offers users of its store card the option to make calls via Alpha.

Virtual operations with a keen eye on margins must exploit new routes to the consumer market. With an apparent glut of fibre capacity over Europe, managers such as Mr Eve should continue to enjoy a choice of carriers. And this diversity is their only guarantee of survival.

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FASTER NETWORKS • By Geoff Nairn

Speeding up the highways

The problems of network congestion are being tackled from many angles

Within ten years, 90 per cent of the world's telecommunications traffic will be data rather than voice – today, the percentages are reversed – but the current infrastructure is ill-suited to handle this explosive growth and carriers and businesses are urgently seeking ways to speed up their clogged networks.

The growth of the Internet is putting great strains on the "backbone" networks of the telephone companies carriers which were designed in the 1980s to carry predominantly voice calls and now must cope with rapidly increasing Internet traffic.

"As the Internet becomes the worldwide communications media, both for businesses and consumers, the data rates required to support this growth will far exceed existing expectations and models," says Scott Clavenna, senior analyst at US consultancy Pioneer Consulting.

The problem of network congestion can be attacked from many angles. The backbone links can be upgraded with more optical fibre, or with technologies such as Wave Division Multiplexing which allows more data to be sent down existing fibre. But while this may solve congestion in the short term, the bottleneck may simply shift elsewhere and, longer term, the additional capacity is quickly swallowed up by soaring demand.

The US Government's Next Generation Internet is one radical attempt to solve the congestion problem by creating a dedicated infrastructure for Internet traffic that does not have to compete for bandwidth with conventional telecoms traffic – the situation with today's Internet.

Because of the Internet's non-commercial origins, carriers get little revenue from transporting Internet data and have no easy way of differentiating users or prioritising traffic. They are therefore reluctant to invest in new technologies to improve the Internet without some way of recouping the investment.


Ron Higgins: Digital Island has a private 'server farm' on Honolulu

However, technologies are now emerging to provide carriers and service providers with a better business model. Bay Networks, for example, recently unveiled products designed to allow carriers and businesses to distinguish between different traffic on their networks.

The idea is to prioritise critical applications over simple web surfing, in effect creating a "business class" service for applications that should get higher priority at network bottlenecks.

This concept, known as Quality of Service (QoS), is not new but is tricky to implement, particularly because of the limited "intelligence" of today's routers – the devices that direct data traffic at the intersections of the public Internet or corporate intranets.

Bay Networks has announced a new generation of "routing switches" that are claimed to be more "intelligent" in that they can determine what priority to give each packet of data. Unlike other proprietary approaches to improving network performance, the company claims its routing switches do not require complex new protocols or expensive network upgrades for existing routers, switches or adapters.

Computer company Hewlett-Packard has also recently introduced a QoS product, but its focus is on the computers that host web sites, particularly those of Internet service providers or companies offering electronic commerce.

"Our customers are telling us that they cannot apply the Internet to e-commerce as aggressively as they would like because they cannot predict or control Internet traffic very easily," says Nigel Ball, general manager of HP's Internet division.

The HP software, called Web QoS, enables the system to identify regular visitors to a website and give them priority, temporarily refusing access to lower-priority first-time visitors, for example.

Similarly, visitors in the process of buying a product get priority for scarce bandwidth over those simply browsing a catalogue.

At peak times, the software can tell users how long they must wait to gain entry.

HP is working with networking company Cisco to extend the QoS concept out into the network and so deliver "end-to-end" QoS in which urgent data gets priority treatment at each hop across the Internet and on the computers at either end.

Cisco routers dominate the Internet and the company is often in the firing line when Internet bottlenecks occur. It has responded with faster and more intelligent routers as well as new technologies such as a "cache engine" to eliminate the repeated transmission of redundant web content. This product stores web pages locally, thus allowing Internet service providers and companies to reduce their network usage and improving response times for users.

IP Multicast is a similar technology that aims to reduce repeated transmission of multimedia or other bandwidth-intensive content to many different users.

A very different approach to network congestion is offered by Hawaiian company Digital Island. For a monthly charge of $10,000, it will host corporate websites on its private "server farm" in Honolulu where, the company claims, the sites can be accessed more quickly and reliably than if hosted in the mainland US.

A private Asynchronous Transfer Mode network links Honolulu to the US and 16 other countries and provides a direct "single hop" link to the Internet communities in these countries that bypasses the congested North American networks.

According to Ron Higgins, founder and chief executive officer, this is particularly important for businesses looking to trade globally on the Internet, because US-based sites are notoriously difficult for non-US visitors to access at peak times.

The traditional solution of hosting mirror copies of a site in different continents is "a nightmare to support", according to Mr Higgins. He cites US chip vendor National Semiconductor which tried using mirrored servers to publish its its databooks on the Internet. It soon abandoned the project in favour of Digital Island's solution because the costs and logistics of mirroring were prohibitive.

In addition, the better performance of Digital Island's "virtual hosting" service allowed National to reach markets in eastern Europe, Asia and Latin America where Internet performance is typically very slow.

While opinions differ over what solution best addresses the bottlenecks of the Internet, there is general consensus that without such solutions the congestion can only get worse.

MANAGEMENT HIERARCHIES • By Joia Shillingford

Opposite trends emerge

The technology is already available to reform middle managements but they may resist it

Do communications technologies such as mobile phones and electronic mail spell the end of rigid management hierarchies? It all depends on who you work for.

Martin Turner, general manager of electronic mail company Compuserve, says two opposite trends are emerging at the same time. "Some workers are being freed from the office and empowered; others – like plumbers – are more under the kosh cosh before."

He says: "Many employees feel able to e-mail the chief executive, even if they wouldn't dream of knocking on his or her door. This helps to break down the barriers between top management and staff. It stops middle management having a stranglehold on information."

It also means that the chief executive can find out a lot, without even leaving the office. In his book *Only the Paranoid Survive*, Andy Grove, chairman of Intel, writes: "What used to be referred to as 'managing by walking around' has to a large extent been supplanted by letting your fingers do the walking on your computer keyboard.

"Given that Intel has now spread all around the world and I couldn't walk the halls of our 60-odd buildings even if I spent full time at it, this [reading and responding to electronic mail from all over the world] has become doubly important."

Don Tapscott, author of *Growing up Digital: the Rise of the Net Generation*, believes rigid hierarchies have had their day. He says: "Most observers believe that the old model of the firm – the command and control hierarchy – is in deep trouble.

"This model is described best in a book written by a former telephone company employee named Scott Adams in *The Dilbert Principle*," adds Mr Tapscott. "Dilbert sums up what many of us have been saying for years: the old model of the enterprise cannot work in an economy driven by innovation, knowledge, immediacy and internetworking."


Hans Snook: Orange videophones will be available in 15-18 months

In 1991, management guru Peter Drucker described middle managers as "relays – human boosters for the faint, unfocused signals that pass for information in the traditional, pre-information organisation." But why get faint signals when you can contact the person you want to talk to direct by mobile or e-mail?

Mr Tapscott expects the pressure on rigid hierarchies to increase when the "Net Generation" – those currently aged between 0 and 20 enter the workforce.

"When the N-Geners enter the workforce," says Mr Tapscott, "they will find hierarchies in which their boss knows less than they do about electronic communications and they will also find electronic commerce strange.

"They will also find it bizarre how little information-sharing goes on, when they are used to exchanging information with strangers online. And they may be puzzled about why it is necessary to go into the office every day."

In theory, communications technologies do not only free the staff. They can also free the boss to have more fun. Hans Snook, head of UK mobile phone company Orange, says mobile telephony enables him to visit interesting potential business partners. "For example," he says, "I could not have gone to Seattle recently if hadn't known that I could keep in touch constantly."

Snook says he can use Oranges's group messaging facility to inform a group of staff about a new development, or ask them to do something. And he also uses the short message service (SMS) feature of digital mobiles to keep in touch.

He believes that in the future other technologies such as mobile videoconferencing and even holography will be used to break down hierarchies. He says Orange videophones will be available commercially in 15-18 months. And, that for closer interaction with colleagues who are out and about, the next big thing will be beaming a holographic image of the caller to them.

"The technology is already there," he says, "but at present the image is only the size of a slice of cake. Further developments will be needed to beam a full-size holographic person into your living room."

Jock Shearer, head of telecoms at management consultants CMG, says: "Sometimes communications technologies break down management hierarchies, sometimes they create useful new ones.

He says telecoms can be used to create effective hierarchies for virtual organisations. For example, Mr Shearer helped a US vehicle company create a virtual organisation out of the 130 design companies it used to design new cars.

"The company wanted to improve its time-to-market, so it set up the virtual organisation to improve the level of collaboration and information-sharing between itself and its suppliers," says Mr Shearer. "The job of the virtual organisation was to collaborate on new-car design, and the hierarchy of the 'organisation' with project teams and online forums helped to encourage this."

But Mr Shearer says communications technology is just a tool. "It is possible for a hierarchichal company to insist that all communication with the chief executive comes via a manager of a certain level," he comments. "Different management structures suit different kinds of business, and no amount of technological change can break down hierarchies in a company that insists on retaining them."

Only the Paranoid Survive by Andrew Grove is published by Doubleday. $27.50.
Growing up Digital: the Rise of the Net Generation by Don Tapscott is published by McGraw-Hill. $22.95.
The Dilbert Principle by Scott Adams is published by Harper Collins. $20.

OUTSOURCING • By Geoff Nairn

More lasting benefits

Strong growth in the sector is being fuelled by a rush of new entrants into the telecoms markets, and the sophistication of corporate networks

Outsourcing has long been promoted as the logical way for organisations to free themselves of the costs and headaches of managing increasingly complex telecommunications networks, particularly for those companies for whom technology is not their core business.

The promise of short-term cost savings remains a powerful reason for adopting outsourcing, but the industry is now trying to promote deeper outsourcing relationships designed to deliver more lasting benefits.

According to Martin Burvill, deputy general manager for Syncordia Solutions, the outsourcing arm of British Telecom, many organisations turn to outsourcing when they are in "fire-fighting mode". Their networks may not be performing well or they may be desperate to lighten their balance sheet and outsourcing seems the perfect solution.

"We will quite happily put out fires but what we really are looking for is something that goes beyond that," he says. Syncordia now promotes outsourcing as a means to reshape business processes – creating an externally managed call centre to improve customer service, for example.

"There is no lasting benefit from outsourcing unless you can also reorganise the company," says Mr Burvill.

Ovum, the UK-based consultancy, highlights this trend in a recent report on telecoms outsourcing. "Outsourcing is now about exploiting new opportunities and providing customised solutions which reflect specific business objectives," says Ovum.

There is good reason for vendors to want to build better relationships with their customers.

Thanks to liberalisation, there is intense competition in the provision of basic "connectivity" – the linking of corporate networks using technologies such as Frame Relay, X.25 or, most recently, the Internet Protocol (IP).

"If we were to build a business model based on just offering connectivity we would go out of business," says Tom Towers, general manager for Infonet, a leading supplier of global network services.

As well as promising healthier returns, outsourcing allows a vendor to know its customers better and, hopefully, become their "partner of choice" for future needs.

For example, US carrier MCI is "primary technology partner" for Nasdaq, the computerised system providing price quotes for securities in the US.

Last year, the New York stock exchange decided to renew its trading system and install a higher-capacity IP-based network. MCI had supplied the previous network and, after considering rival bids, the exchange again awarded the work to MCI in a contract worth $600m over six years – MCI's largest outsourcing deal.

Rapid technological advances and the increasing strategic importance of corporate networks have caused many organisations to follow Nasdaq's example and outsource the planning and management of their internal telecoms. The market is experiencing robust growth of about 20 per cent a year in Europe and the US, according to Ovum, which predicts the global outsourcing market could be worth $15bn worldwide by the end of 2000.

BT is bullish about the market's prospects and it created Syncordia Solutions last year in anticipation of growing demand for managed and outsourced solutions based on converging voice, IT and data communications technology. The company was formed from the merger of two BT divisions that offered managed network services and outsourcing, respectively.

C&W chief David Sexton says multinationals sometimes exclude countries with less developed telecoms markets from outsourcing arrangements – which complicates the task for the outsourcing vendor

"Today, we do not make a distinction between managed services and outsourcing," says Mr Burvill.

If a distinction has to be made, outsourcing typically involves a transfer of assets – network infrastructure, equipment and, in many cases, people – from the customer to the outsourcer.

Managed network services stop short of the transfer of assets. This less radical approach is often easier to implement, particularly in companies or countries where it is difficult to transfer staff.

Multinational organisations are a favourite target for the outsourcing industry because they are desperate to reduce the hotch-potch of local service providers and standardise on one or two global vendors. "There is a lot of merit in having a single point of contact," says Brian Marshall, director of telecommunications at consultancy Cap Gemini.

The telecoms needs of a multinational are highly complex, however, and Cable & Wireless, the UK-based carrier, has found that it is not always practical to take over the entire network operations of a multinational.

David Sexton, chief executive officer at the Cable & Wireless Global Markets, says that in countries with less developed telecoms markets, a good relationship with the local telephone company is often essential for good service. So multinationals will typically exclude such countries from their outsourcing arrangements – which complicates the task for the outsourcing vendor as it attempts to create a "seamless" global infrastructure for its client. "This can cause us some problems," admits Mr Sexton.

Standard Chartered Bank is in this situation. It has entrusted most of its global data and voice telecoms to Cable & Wireless but in parts of Africa its pre-existing local service agreements remain in place.

Big financial institutions have traditionally been keen users of outsourcing. In the US, for example, AT&T recently won a 12-company battle to build and manage a $750m global data network for the US financial giant Citicorp. But the most promising markets for the outsourcing industry lie with the Internet service providers, global satellite systems and the new breed of "virtual" carriers which want to quickly establish a presence in liberalised telecoms markets but do not want to build their own networks.

One such is United Telekom Aktiengesellschaft (UTA), the first privately-owned telecoms operator in Austria. UTA was set up by nine regional utilities and has handed over the task of designing, building and managing its network to Swedish company Ericsson. The entire network is remotely managed from Stockholm.

The rush of new entrants into the telecoms markets, and the sophistication of corporate networks, are fuelling strong growth in the outsourcing industry, helping to raise awareness that outsourcing goes beyond basic "fire-fighting" and can play an increasingly strategic role in achieving business aims.

CASE STUDY Rhône-Poulenc and Equant

'Seamless' network needed

Telecommunications is of growing strategic importance to many large companies and there comes a day when they face a stark choice: continue running telecommunications as an internal function or hand over to a more experienced outsourcing partner.

For French chemicals giant Rhône-Poulenc, that day came at the end of 1996.

"We were at the point where we had to decide whether to invest in the company or to seek a partnership with someone else," says Jacques Beer-Gabel, director for IT and telecoms at Rhône-Poulenc.

Given the importance of telecoms to Rhône-Poulenc, it took its time to consider carefully its reasons for outsourcing and then invite bids from various vendors.

The company recently awarded the contract to run its worldwide data communications to Equant, a global networks provider. Voice services are not included.

As part of the exclusive seven-year contract, valued at more than FFR1bn, Equant will acquire Rhône-Poulenc Telecom (RPT), the in-house telecoms arm of the chemicals group, and transfer its 41 staff located in France, the UK and the US.

Equant's Network Services global control room in Paris

Personnel issues have traditionally been one of the trickiest outsourcing challenges. In the early days of outsourcing, union opposition and the hostile climate created would undermine many outsourcing deals.

Today, negotiations are handled more sensitively, but the issue of staff transfers remains delicate because telecoms staff in the client organisation often have specialist knowledge and experience that is difficult to replace.

If the transfer is not handled correctly, they may fear for their future and start looking for employment elsewhere.

Another problem is that in many countries it is quite difficult to transfer staff from one company to another and there are a host of minor issues related to preserving terms and conditions of employment. Nevertheless, Mr Jacques Beer-Gabel says the fears of staff problems have proved unfounded.

"The people are very pleased with this solution although it was not presented as 'outsourcing' but rather as the simple sale of a company [RPT], because outsourcing has a bad name in France."

RPT connects Rhône-Poulenc subsidiaries around the world via a dedicated data network called RP-Net which currently connects 425 sites in 57 countries.

The network will be expanded to include an additional 110 sites located mostly in the Asia-Pacific region and, according to Mr Beer-Gabel, this was one of the primary reasons for choosing to outsource the network and its future development.

"We were expecting to develop our business in Asia-Pacific and asked ourselves how we were going to implement telecommunications in the middle of nowhere."

With the outsourcing agreement, the Asian network expansion is now entrusted to Equant.

"Its much easier to say to them 'This is now your problem,'" he says.

Cost savings have traditionally been a powerful motivator for outsourcing but in the case of Rhône-Poulenc, this was not the most important factor. "Cost is a long-term issue, particularly as regards the investments required to expand in new countries, but it is not the most important driver," says Mr Beer-Gabel.

Rhône-Poulenc relies increasingly on data communications to connect its plants and subsidiaries around the world. It was looking for a vendor to provide it with a "seamless" network that could be fully managed and supported from a single source.

In France, the company previously used network links supplied by Transpac – the data networks subsidiary of France Telecom – while elsewhere AT&T was the principal vendor.

"They were supposed to provide a seamless service to our end-users but it was a lot of work for us and that's why we decided to transfer [the networks] to Equant," explains Mr Beer-Gabel.

The concept of a single, seamless network is particularly important as companies seek to achieve global integration between their different business units and link production, sales and marketing facilities more closely.

To do this, Rhône-Poulenc has standardised on the R/3 enterprise resource planning software, from German IT vendor SAP, which is particular popular with large global manufacturers. Such systems depend heavily on the seamless flow of information within the organisation and so the role of the corporate data network acquires even greater importance.

Indeed, the challenge of implementing R/3 in an organisation with operations in more than 160 countries was one of the reasons Rhône-Poulenc chose to outsource its network.

In addition to the RP-Net data network, RPT also provide value-added services to most of the companies within the Rhône-Poulenc group. These services include e-mail, file transfer, electronic data interchange (EDI), remote access and, most recently, a corporate intranet.

Today, the intranet covers half the company's sites and about two-thirds of its 68,000 employees, but it will ultimately be extended to reach everyone. The growing importance of the intranet was another reason for outsourcing RPT to Equant.

There are many vendors that compete with Equant in offering managed data services and outsourcing. "We considered bids from several companies and there was not a huge difference in cost so it was a tough choice," says Mr Beer-Gabel. What finally swayed Rhône-Poulenc to award the contract to Equant was its global presence. "It seems a very international company and they operate a network which, unlike some competitors, is not a network built from agreements with other operators. It is one global network."

Geoff Nairn

NEW PRODUCTS AND SERVICES • Compiled by Philip Sanders

High-quality images via ISDN lines: Motion Media Technology's mm220 videophone goes on sale within the next few weeks

Extended-range GSM demonstrated

Motorola's Cellular Infrastructure Group has developed a software feature which they say enables GSM operators to triple the coverage of their network with no additional infrastructure.

Telefónica and Motorola carried out trials of the new "Extended Range Cell" feature in Majorca, using in-car and portable GSM phones. A GSM terminal was also installed on a ferry which operates between Majorca and Ibiza.

The theoretical maximum coverage range of a GSM cell is inherent in the technical specification of the system and is limited to 35km, but with the Motorola feature the range of a cell can be increased to 121km, depending on local terrain. This enables operators to extend coverage without installing new cell sites.

Motorola says the feature is specifically designed to provide coverage in flat rural areas where population densities are low and where installation of extra cell sites is expensive, and also in costal areas where GSM operators may be able to target subscribers in the tourism, sailing and fishing industries.

Miniature digital wireless module

Paris-based Wavecom introduced a matchbox-sized digital wireless module which it claimed was the smallest available on the market.

The 54mmX32mm Wismo2 offers an integrated wireless module suitable for use in vehicle tracking systems, vehicle location data, measurement and telemetry devices, payment terminals, information services and telemetry applications such as vending machines.

The Wismo modules can eliminate location constraints and resolve security problems for terminals or equipment currently tied to wired telephone networks, such as automatic teller machines, credit card readers or remote maintenance facilities.

New videophone uses ISDN lines

A videophone which uses ISDN lines to transmit high quality images, combined with low-cost technology, has been launched by Motion Media Technology, based in Bristol, England.

The mm230 videophone is scheduled to be available in UK high street shops within the next few weeks and is expected to retail at about £1,000. The mm120 videoconferencing system, priced from £2,000-£3,000, is available through Motion Media's distribution network.

Motion Media says the quality of its videophone images are so good that the equipment can be used by deaf business people to communicate through sign language.

The company is involved in a project with deaf organisations aimed at developing video telephony for deaf business people – and is also in discussions with the banking sector aimed at introducing videophones for deaf customers.

The Untangler: solving problems

Satellite phones for car drivers

Drivers anywhere in the world can now keep in touch with the launch of BT's Mobiq Vehicle satellite phone service. And to prove the point, BT is installing the equipment in six support vehicles on this year's Camel Trophy rally which starts on August 5 in Santiago, Chile, en route to Cape Horn.

For complete mobile communications, a fax or PC can be connected to Mobiq Vehicle, enabling users to send and receive faxes and e-mail, and even surf the Net, on the move anywhere in the world.

The Camel Trophy rally: testing times for BT's Mobiq equipment

Ultra-fast ISDN access from GTE

GTE, one of the biggest US telecoms companies, starts to roll out its network-based ADSL (Asymmetric Digital Subscriber Line) service in 16 states this month, creating the largest deployment of ADSL in the US and offering high-speed Internet access.

GTE will install ADSL equipment supplied by Fujitsu Network Communications based in Richardson, Texas, and digital subscriber line partner Orckit Communications. GTE will give customers continuous access to the Internet at speeds up to 1.5 megabits per second (Mbps).

A 2½-minute movie clip (8.8 megabytes) would take 35 minutes to download using a 33.6Kbps modem - but less than 47 seconds using a 1.5Mbps ADSL modem.

Fresh angle on *phone tangle*

Data Design, of Thame, Oxfordshire, launched The Untangler – a device to straighten out the problem of twisted telephone leads. Installed into the telephone handset or base, The Untangler rotates with every movement, ensuring that leads have no opportunity to tangle. Data Design has acquired UK rights for the product which was originally designed and manufactured in the US but has been modified to fit UK telephones.

OPINION

Why telecoms sector is in turmoil

Survival 2000 needs a revolution – not more of the same – suggests David Andrews

Michael Armstrong, the chairman of AT&T, used to work for IBM. Sir Peter Bonfield, the group chief executive of British Telecom, used to work for ICL.

The fact that both these leading telecoms corporations are led by men who came from the computer industry is no coincidence. The telecoms business is hurtling into a technological revolution and these two national standard-bearers face bewildering changes in consumer demand, competition and product innovation.

The traditional PTTs built their businesses around the network. Having managed the physical construction, they then undertook the wholesale distribution and retailing of capacity.

Now, however, AT&T faces competition from MCI and WorldCom, which are forging a far-reaching alliance capable of bringing together voice and data services in a manner that would have been unthinkable five years ago.

The British market will also become far more competitive. The cable operators will leverage TV and telecoms services off one another. The regulator is pressurising mobile providers to make deeper inroads into the fixed link market. BT capacity is being resold by specialists, and companies such as Colt, Energis, and Racal BRT will make further inroads into BT's corporate client base.

European PTTs will themselves be squeezed by falling market share and tumbling tariffs. Global One – the international carrier owned by France Telecom, Deutsche Telekom and Sprint – is incurring losses already, partly due to inability to sustain higher prices.

Behind much of this competitive pressure lies new technology and capacity. Both help destroy the incumbent's monopoly over the infrastructure.

Europe will see a massive increase in capacity in the next two years, starting in the international market but extending to the long-distance markets too. With two new Europe-US cable crossings in action later this year, City of London analysts reckon these new links will triple the capacity of current cables.

New technology and the demand for new types of service will add to pressure on large monopoly groups.

The market may also become far more fragmented, allowing specialist groups to pick off lucrative niches at the expense of the big groups.

At the moment the total volume of communications traffic is split 80 per cent voice and 20 per cent data. Estimates from WorldCom suggest that by 2003 the reverse will be true.

Some applications will be greedy in their appetite for bandwidth – video-on-demand is 10,000 times more consumptive of resources than a telephone call, second by second – and will require companies with elderly networks to make huge investments if they wish to deliver these services. The PTTs are under massive threat from these developments: their core strength is the delivery of voice with some information services.

By contrast, the cable firms can provide voice services but see broadcast and multi-media as their core business. Similarly, ISPs provide information as a core activity, but voice and broadcast services could soon also become available. The PTTs' core customers will expect a host of new services – yet these new services are the main competencies of emerging competitors.

To date the PTTs have fought back in three ways. Firstly, they have invested in new technologies and alliances to hedge their bets. Secondly, groups such as BT have launched customer loyalty schemes. Thirdly, the PTTs have made interconnect agreements with competitors awkward to reach and maintain.

But regulators are unlikely to allow PTTs to continue to hinder competition in this way.

The network will no longer be the foundation of the PTTs' strength in the way it was. WorldCom's network, now being assembled, will be far superior in many respects. What does remain at the core of the PTTs' business, however, is the relationship with the customer.

The PTTs must, therefore, divest themselves of network responsibility and concentrate on this relationship. As utilities serving a multitude of accounts, they can excel. BT, exposed to competition for much longer than other European PTTs, may already be moving in this direction by agreeing to manage customers for British Digital Broadcasting, the UK digital TV company.

PTTs need to break themselves up in advance, however – into divisions, so as to identify which parts are truly competitive.

One way to stimulate action would be to outsource all non-core activities.

This is common in the US, but telcos in Europe have been slow to follow suit. Bell South's latest move was a 10-year, $2bn programme to shed 2,000 employees in an outsourcing agreement too large for any one outsourcing supplier.

The time has come to be bold. The only alternative is forlornly to fight on, overstretched, as smaller, more modern competitors take lumps out of your business.

The author is the worldwide managing partner of the Paris-based Communications Global Market Unit of Andersen

MARKET REPORT • By Christopher Price

German stocks shunned

A lacklustre performance by Deutsche Telekom's shares is attributed to clashes with the regulator combined with macroeconomic factors

Investors have been seeking out continental Europe's big telecommunications stocks in the past year – but with one significant exception.

Deutsche Telekom has been alone out of the region's four biggest telecoms groups in underperforming both its national stock market and an index of the world's leading telecoms stocks. Telefónica, France Télécom and Telecom Italia, on the other hand, have scored well on both counts.

There are several reasons for the contrasting fortunes. The first is macroeconomic: the performances of Telefónica and Telecom Italia are in part a reflection of the buoyant state of the economies of Spain and Italy respectively.

"Southern European economies are booming in the run-up to the euro and investors see telecoms stocks as barometers for this," says James Dodd at Dresdner Kleinwort Benson, the investment bank.

The German economy, in contrast, has not performed as strongly. However, despite this, Deutsche Telekom has underperformed the Frankfurt market markedly so far this year. It is no coincidence that this has also been the period in which the company has faced open competition in its own market for the first time. And it is also a period when Klaus-Dieter Scheurle, the German telecoms regulator, has had the opportunity to flex his muscles.

"Deutsche Telekom has had a very combative opening relationship with the regulator which has been hanging over the shares," says Mr Dodd.

Last month, the group warned that it would have to take a charge of between DM3.5bn and DM4.5bn because of a regulatory ruling over its cable television business. The company had raised cable subscription prices to offset losses at the subsidiary which last year amounted to DM1bn. However, the regulator ruled that two-thirds of the increase introduced in November last year would have to be rescinded.

The size of the charge raised fears among some analysts that the company might be unable to maintain its 1998 dividend at DM1.20 a share. Investor mood was further unsettled by warnings from the company that future earnings could be affected by other crucial regulatory decisions in the future.

This was just the latest in a series of clashes between Deutsche Telekom and the regulator.

In April, the group was forced to withdraw proposed charges for customers contracting to new competitors. The regulator also ruled that customers should be able to transfer their telephone number to a new operator without paying. Earlier, it was ordered to reduce interconnectivity prices.

In contrast, a flow of positive news on France Télécom, Telefónica and Telecom Italia in recent months has helped propel share prices which in the latter two cases have already been underpinned by the macroeconomic factors.

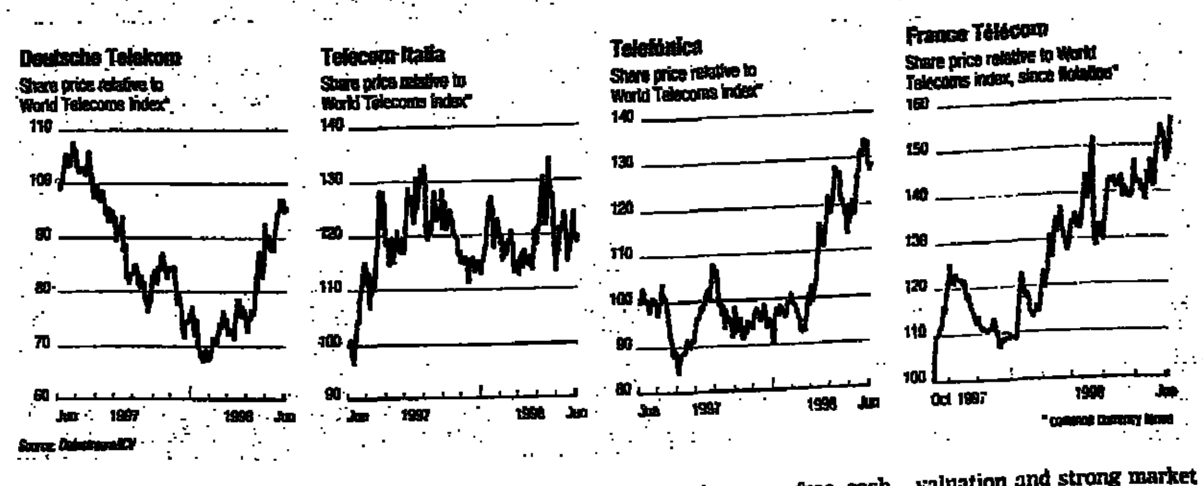
While the French economy may not be buoyant, France Télécom has also been attracting investor interest, most notably on the back of its mobile business. Its strong performance was a significant factor in helping the group post a 4 per cent rise in turnover last year to FFr156.7bn. Analysts had been expecting FFr152bn.

There has also been a string of deals to add additional interest, such as cable television acquisitions in Spain and the Netherlands.

Deals have also cultivated positive investor sentiment at Telefónica. The company has targeted Latin America as its main overseas focus and has made investments in Argentina, Chile, Peru and most recently Mexico.

Such has been the success of this strategy that Telefónica recently announced it was to spin off its international division. It also launched a Pta427bn rights issue to raise funds for further international investment, with the privatisation of Telebras in Brazil high on the agenda.

The decision to spin off the international business, which analysts believe could be worth Pta850bn, sparked speculation that some of Telefónica's other assets, such as its property, media and mobile businesses, could be similarly treated.



Mobile business and Latin America featured heavily in the group's first quarter results, which came in ahead of analysts' forecasts. Net profits rose 18 per cent to Pta32.8bn.

Telecom Italia has also been looking overseas in its drive to replace business lost to new competition in its domestic market. In April, the group announced an alliance with Cable and Wireless, the UK's second-biggest telecoms group. As part of the agreement, C&W sold the Italian operator its 20 per cent stake in Bouygues Telecom, the French mobile group.

Its domestic mobile business has also performed strongly and, as with France Télécom, helped underpin solid results for the whole group. However, it has not all been good news for Telecom Italia. Boardroom unrest led to the resignation earlier this year of Tomaso Tommasi di Vignana, the chief executive. It also contributed to the unravelling of the group's alliance with AT&T, the US telecoms group.

The contrast in the performances of Telecom Italia, France Télécom and Telefónica compared with Deutsche Telekom has led to the German company becoming among the cheapest telecoms stocks in Europe.

According to ABN Amro, the investment bank, the German group has the lowest rating across a range of measures, ranging from enterprise value over earnings before interest, tax, amortisation and debt, to the share price over free cash flow.

While the group's regulatory problems are likely to continue to hang over it in the short-term, James Ross of ABN Amro believes Deutsche Telekom's attractive valuation and strong market position will prove tempting in the longer term.

"It will not happen tomorrow, but we believe the stock will recover and begin catching up the ratings of the other telecoms companies."

COMPANY IN THE NEWS: SBC

Birth of new breed of supercarrier

SBC's deal with Ameritech could spell the end of the status quo in the US telecoms industry, says **Richard Waters** in New York

If there was any doubt that the US is giving birth to a new breed of telecoms supercarriers, then it should have been dispelled on May 11. That was the day when SBC Communications, the second-largest of the Baby Bells, took another big bite out of the nation's telecommunications infrastructure with a $62bn agreement to buy Ameritech, its smaller counterpart in the Midwest.

The giant deal landed with a unpleasant thud on the doormat of the Federal Communications Commission, the agency charged with bringing about the more competitive world promised by the Telecommunications Act of 1996. SBC has made a name for itself as the Bell company that has been least willing to open its local networks to potential competitors: with control of about a third of the access lines in the country, a combined SBC-Ameritech could prove to be a daunting adversary for William Kennard, the FCC's chairman.

The two telecoms companies have set out from the beginning to depict their union as a victory for the forces of competition. "We're going to break the local logjam," said Edward Whitacre, SBC chairman, referring to the competitive stalemate that has left most telephone users in the US without any alternative to their existing local carrier.

After the acquisition, the two say they will pour money into developing local services in areas outside their existing geographic footprints. As if to prove their intent, they have published a list of 30 large cities that are in their sights.

Attempts by other big carriers to sell local residential services in this way have flopped. AT&T and MCI, both of which pulled back from local initiatives, claim that reselling capacity from the Bell networks under their own names – the only realistic way to offer an alternative residential service – simply is not a money-making proposition.

Mr Whitacre brushes off such suggestions. "I've never believed those arguments, and I don't believe them today," he says. "I believe it is profitable."

Until now, SBC has had little need to look beyond its immediate territory in this way. While it claims to have lost about 500,000 local service customers to competitors – about the same number as Ameritech has lost – it still dominates its six-state region, which includes California and Texas, the country's two most populous states. Its 34m access lines are topped only by Bell Atlantic, which has 40m: once combined with the 21m lines of Ameritech, SBC will account for about a third of the US total.

Also, while US long-distance carriers have suffered a further erosion in profit margins as competition in their market has become even fiercer, margins in the local market have remained solid. SBC's after-tax profit margin (leaving aside unusual items in each year) has been steady at about 13.5 per cent in each of the past three years.

In short, SBC has done very well out of the status quo. Of the original seven Baby Bells that were created at the time of the break-up of the old AT&T in 1984, it has the best record in terms of profitability – and its shareholders have enjoyed the biggest gains. Its core territory, in the South West, has encompassed some of the fastest-growing areas of the country, helping to lift demand for its services. It boosted this with the $16bn acquisition last year of Pactel, the Bell company that served California.

SBC's managers have proved themselves adept at making the most of their customer base. The company has achieved the highest penetration of any local carrier for value-added services such as call waiting. And its 5.5m cellular customers at the end of last year was equivalent to 12.2 per cent of residents in its territory, a higher penetration rate than has been achieved by other Baby Bells.

Against that background, Mr Whitacre's attempt to buy Ameritech reflects a continuation of a well-tried strategy. By cutting more than $1.2bn from annual costs over the next five years and imposing the same sort of management disciplines which have yielded faster growth at SBC, he hopes to more than make up the 25 per cent premium paid for Ameritech.

However, the status quo in the US telecoms industry may not last much longer. Mr Whitacre's bid for Ameritech has handed the FCC – which must approve the deal – one of its best chances to pry open both companies' entrenched local networks. It is with that prospect before him that the SBC chairman has now sought to paint himself as a champion of competition.

It seems unlikely that the deal would be blocked on competition grounds. Berge Ayvasian, head of telecommunications consulting at the Yankee Group, referring to earlier mergers between Bell companies, says: "We've seen two approvals go by – it is hard to see what can stop this one taking place." Like those earlier deals – SBC's purchase of Pactel and Bell Atlantic's acquisition of Nynex – the combination would barely reduce competition in the local markets: aside from some overlap in St Louis and Chicago, the two companies have largely stayed off each other's turf.

However, the FCC will still be in a strong position to force concessions from SBC before allowing the deal to proceed, much as it forced market-opening moves in the North East before allowing Bell Atlantic's purchase to be completed. And SBC can expect a far rougher ride in Washington, where its purchase of Bell companies has stirred concerns that the old, pre-1984 AT&T system is being reassembled piece by piece. SBC's merger discussions last year with AT&T itself, though abandoned, have also fed those concerns.

Mr Whitacre calls such fears "purely off-target." Neither SBC nor Ameritech has yet been allowed into the long-distance business, he says, and neither has a monopoly over local calls in its region. Yet most industry observers expect the Bells finally to be allowed into the long-distance market before the decade is out. And when that day comes, a combined SBC-Ameritech could be in one of the best positions to profit.

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A round-up of the telecoms industry: **Joia Shillingford** takes a look at the news, reviews and forthcoming events

NEWS IN BRIEF

Funding for global ATM network

Cignal Global Communications of the US has raised $22.5m in private financing from New York-based Spencer Trask to build a global Asynchronous Transfer Mode (ATM) network.

The company, which has a voice-over-data patent, currently offers long-distance services to the UK and is deploying big international hubs in New York City, London and Hong Kong. It plans to add 30 points of presence around the world by the end of 1999 and offer bundled voice-and-data services for carriers and businesses that need low-cost communications.

Net telephony 'serious threat'

Internet telephony represents a potentially serious threat to telecoms operators, according to a new report* from telecoms consultancy Analysys.

Internet telephony "... is all set to transform the way in which operators conduct their business," says the report. It suggests that established telecoms operators can either ignore the threat of Internet telephony and buy up the competition later, join the fray now by offering low-priced services in direct competition to the new entrants, or move up the value chain by leveraging their technical expertise to exploit the value-added aspects of Internet telephony.

**Commercial Strategies for Internet Telephony (£1,295)*

Call-centre criticisms

Call-centre callers are frequently unhappy about the service they receive, according to a new study headed by Cable and Wireless Communications with IT specialists Cap Gemini and with analysis by the Henley Centre consultancy.

The study focuses on what consumers expect and experience when they use a call centre. Phase One of the study shows that consumer dissatisfaction is running at high levels.

UK companies, keen to make cost-savings, continue to accelerate their use of call centres. Last year saw growth of nearly 50 per cent and related IT spend has soared from £300m in 1994 to £1.8bn in 1997, keeping the UK at the top of the European Union league.

Small is beautiful

Nokia is to supply mobile phone infrastructure to a Finnish telecoms company that will use it to provide cordless phone services within companies.

"With Nokia's solution [the Easywave Access network], we can offer mobility to our customers without investing in a mobile network with full coverage," says Reijo Liukkonen, managing director of Kymi Telephone Company, a regional phone company based in eastern Finland. Users in the Kotka City area will be able to use the service from a standard GSM 1800 handset.

Transatlantic win for Racal

International Optical Network (Ion), Racal Telecom's joint venture with Metromedia Fibre Networks (MFN) of the US, has won a contract worth more than $25m to supply network infrastructure to AC-1, the transatlantic optical fibre system operated by Global Crossing. Ion will provide high-capacity shore-to-city links on both sides of the Atlantic.

TELECOMS FUTURES

High fibre content can spell a healthier outlook

Some of the newer operators, with extensive fibre-optic networks already in place, are in a very strong position

Forget Moore's Law, which says that computers will double in power every 18 months. The real breakthroughs in 'bang per buck' are happening in the communications business, says Gerald Butters, group president optical networking at US-based Lucent Technologies.

He says that, for only a small extra cost, a single fibre-optic line can be split into eight or 16 channels. And it won't stop there.

AT&T is using a Lucent system that can combine up to 80 high-capacity optical channels (of 2.5 gigabits a second) over a single fibre.

Longer term, Lucent is working on software that can split a line into 208 channels, and has carried out successful laboratory tests. One day even 1,000 channels might be possible. This puts newer operators with extensive fibre networks into a very strong position. They have already laid their cable; now they can put more traffic over it.

Mr Butters says: "Unlike traditional telcos with largely copper networks, operators with fibre networks like Qwest could charge 7.5 cents a minute for US long-distance and still make money. This is raising the value of telcos which use fibre widely, and turning them into acquisition targets."

The software works by sending pulses of light down a single fibre at different time intervals. Lucent, once AT&T's equipment arm, still has access to AT&T's Bell Laboratories and reckons the technology has even further to go.

Lucent estimates that the market for Dense Wavelength Division Multiplexing equipment – the technology used to split fibre-optic lines – is growing at a compound annual rate of 62 per cent a year. Other operators in the market include Cienna, Pirelli, Ericsson, Alcatel and Nortel.

Mr Butters believes the trend towards ever-faster computers and only slightly faster networks will be reversed. Fibre-optic networks will get cheap enough to connect directly to personal computers, he says. And progress will not stop there. He believes the next big thing in high-speed communication is photons – light pulses – that do not have to be converted into electronic signals.

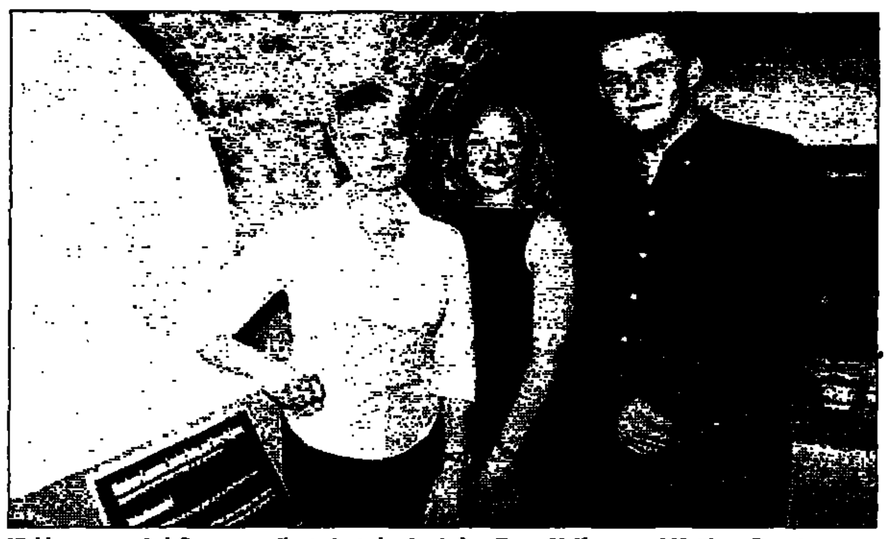
By sending bits of data as pulses of light down a hair-thin strand of optical fibre, carriers could one day send hundreds of millions of calls simultaneously over their fibre-optic networks.

"Bandwidth is tripling every year, due to progress in optoelectronics," says Lucent.

BACKCHAT

Facelifts planned for ugly base stations

RSA design students have been taking a fresh look at telecoms masts on behalf of Cellnet



Highly commended: Bournemouth students Louise Irving, Tracy McKenna and Matthew Cranston

Comment about ugly base stations has caused cellular network operator Cellnet to come up with some new designs. Or, to be more precise, it has sponsored a Royal Society of Arts competition for design students.

"The students were given a broad brief and asked to produce telecoms masts that celebrate mobile telephony rather than try to hide it," says Mike Short, head of communications at Cellnet.

Ian MacLean, Cellnet's head of network construction, says the company plans to produce some new base stations based on the two winning designs, as well as on two highly commended entries. Depending on the reception the designs get, and the economics of producing them, Cellnet may consider producing them in larger quantities.

One of the winners was a slim, futuristic tower encased in glass, with different shades of blue at the lower end, somewhat reminiscent of the water tower on London's Shepherd's Bush roundabout. This was designed by two interior design students from London Guildhall University, Stefano di Santo from Florence, and Peter Tran from Saigon.

The other winning design had a tripod-shaped base that could straddle a canal or motorway and be used as a footbridge. This was designed by Guy Seivewright and Jerome Booton, two furniture students from the University of Central England, who plan to use their winnings (£5,000 per winning team) to visit Japan.

The two winning entries were largely designed for industrial settings, such as business parks, motorways or canals. The two highly commended entries were designed with rural areas in mind.

The highly-commended wooden footbridge designed by Sean Hembrey and Thomas Landsverk of the University of Central England was popular with visitors to the exhibition, including Bjorn Amundsen, head of coverage for mobiles at Norwegian telecoms operator Telenor.

He says: "Because Norway is so rural, yet uses mobile phones so extensively (40 per cent of the population have them), the location of base stations is a big issue. Some countries may be happy to disguise base stations in plastic tree designs, but Norwegians prefer the real thing."

Telenor has actually sited one or two base stations in real trees, and has one of the biggest environmental groups as an adviser.

"But", says Mr Amundsen, "one of the best solutions to base-station proliferation is sharing base stations with your competitors, which the two Norwegian cellular operators must do by law."

Cellnet plans to sponsor mobile-phone base station RSA design awards next year, with a rural theme.

Peter Tran (left) and Stefano di Santo with their winning design

SMALL TALK

E-mail 'causes stress'

Electronic mail is one of the biggest causes of technology-related stress, according to a new book - *Le Syndrome de Chronos* (The Chronos Syndrome) by Denis Ettighoffer and Gerard Blanc. The books says this is because electronic communications put people under pressure to react instantly.

Feeling thirsty? Why not turn on your mobile? The ability to buy drinks via a mobile phone is a reality for visitors to Helsinki airport. They just dial the vending machine's phone number, select a drink and slake their thirst.

Electronic meeting technology – where users can vote on issues anonymously or make unattributable comments – can cut complex meetings from several days to several hours, according to research carried out by the Department of Trade and Industry and Professor Clive Holtham of City University.

"But electronic meetings aren't always popular with chief executives used to getting their own way," says Prof Holtham.

THINK TANK

Brands fail to ring bells

What price global telecoms brands? None of the big telecoms companies has any sort of profile outside its home market, according to research carried out by French company Ipsos Opinion and Andersen Consulting.

The research shows that 69-91 per cent of consumers in France, Britain, Germany, Spain and Italy can recall the name of their incumbent telephone monopoly.

But the figure drops to 0-9 per cent when consumers are asked to name telcos from other parts of Europe.

For example, in Germany, 89 per cent could name Deutsche Telekom and 15-22 per cent could name other German telcos (including mobile phone companies). But only 3 per cent could name BT, 2 per cent France Télécom and 1 per cent Telecom Italia/SIP.

In the UK, Deutsche Telekom was mentioned by 1 per cent and US telco AT&T by 6 per cent. France Télécom, Telefónica, and Telecom Italia were not mentioned at all or were mentioned by less than 1 per cent.

By contrast, 86 per cent mentioned BT, 32 per cent Cable and Wireless, 31 per cent Mercury (now part of Cable & Wireless Communications) and 29 per cent Orange.

The European market most conversant with the names of non-domestic telcos is Italy. France Télécom was mentioned by 9 per cent, Deutsche Telekom by 8 per cent and British Telecom by 5 per cent.

In Italy, recognition of the two top domestic operators was also high with 91 per cent citing Telecom Italia and 52 per cent mobile operator Omnitel.

In each European country covered, Ipsos interviewed 1,000 consumers, making a total of 5,000 in all. Because consumers often mentioned more than one telco, the percentages do not add up to 100.

The next Ipsos bi-annual report will be completed this summer.

AGENDA

Dates for your diary

June-July: UK regulater Oftel documents due in June include: Guidelines on Icas [Interconnection and Account Separation] Condition 20B15, Determination of the Payphone Access Levy Review, Oftel News.
In July, Oftel is to publish its review of Kingston Telecommunications.

June: Innovations in Cellular-PCS Customer Interfaces (Washington DC, Santa Clara, CA, London, Berlin), The Yankee Group Europe. Tel: +44 (0) 1923 246511 or fax +44 (0) 1923 247566.

June 11: One Network: Achieving Voice-Data Network Convergence (Toronto, Canada), The Yankee Group Europe. Tel: +44 (0) 1923 246511 or fax +44 (0) 1923 247566.

June 8-19: Corporate Network Strategies (Munich, Frankfurt, London, Amsterdam, Madrid, Milan), The Yankee Group Europe. Tel: +44 (0) 1923 246511 or fax +44 (0) 1923 247566.

June 15-18: Towards All Optical Networks (London), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.

June 17-18: Fighting Mobile Fraud (London), IBC UK Conferences. Tel: +44 (0) 171 453 2700 or fax +44 (0) 171 636 1976.

June 22-24: Negotiating & Implementing Interconnection in Central and Eastern Europe (Prague), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.
Cost Allocation in Telecoms (London), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.
Strategic Cost Management in Telecoms (London), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.

June 23-25: Networks Telecom '98 (Birmingham NEC), Miller Freeman. Tel: +44 (0) 1203 426511 or fax +44 (0) 1203 426449.

June 29-30: Competitive Operator Strategies (Vienna), The Yankee Group Europe. Tel: +44 (0) 1923 246511 or fax +44 (0) 1923 247566.
Convergence of Fixed and Mobile Telecoms (London), ICM Conferences. Tel: +44 (0) 171 436 5735 or fax +44 (0) 171 436 5741.

July: One Network: Achieving Voice-Data Network Convergence (Newark, NJ; Santa Clara, CA; Washington DC, New York), The Yankee Group Europe. Tel: +44 (0) 1923 246511 or fax +44 (0) 1923 247566.

July 8-10: Usage-Based and Quality-Linked Internet Pricing (London), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.

July 13-14: Personal Numbering (London), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.

July 15 and September 16: Y2K – The Challenge for Telecommunications Management (London), Quadrilect Conferences and Training. Tel: +44 (0) 171 242 4141 or fax +44 (0) 171 404 0258.

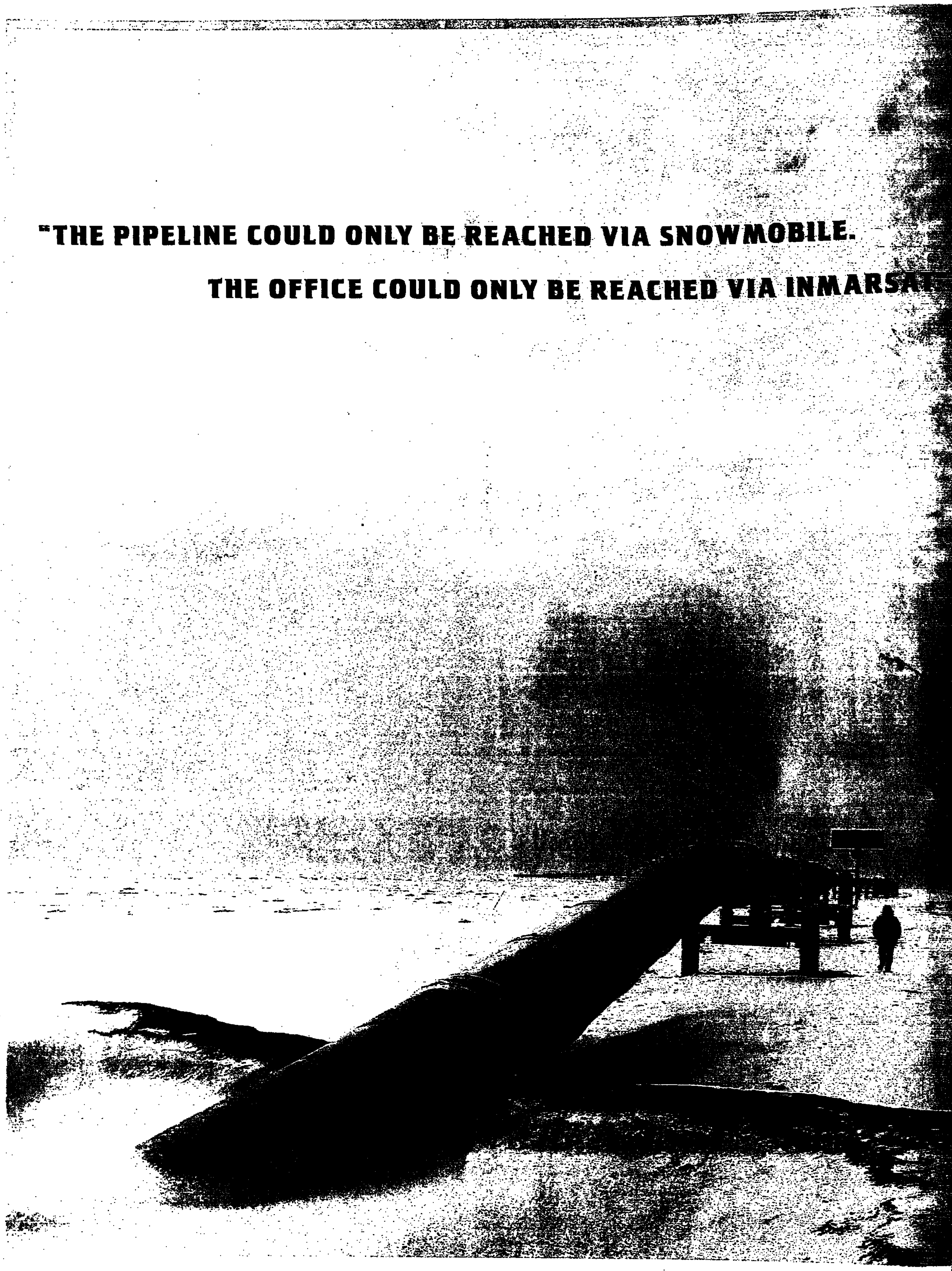
September 9-11: Transfer Pricing in Central and Eastern Europe (Warsaw), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.

September 14-16: Frequency Hopping (London), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.

September 14-17: The 5th Global Interconnection Forum (Barcelona), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.

September 16 and 17: Internet Conference (Amsterdam), The Yankee Group Europe. Tel: +44 (0) 1923 246511 or fax +44 (0) 1923 247566.

September 16-18: Risk Management and Internal Audit in Telecoms (London), Vision in Business. Tel: +44 (0) 171 747 5441 or fax +44 (0) 171 839 3777.



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